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STATE OF CALIFORNIA

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DEPARTMENT OF INSURANCE

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PUBLIC HEARING

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IN RE: INVESTIGATIVE HEARING

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PROPOSED ACQUISITION OF HUMANA, INC. ("HUMANA")

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BY AETNA, INC. ("AETNA")

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SACRAMENTO, CALIFORNIA

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WEDNESDAY, APRIL 27, 2016

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1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25	APPEARANCES:  The Panel of the Insurance Commissioner: DAVE JONES Insurance Commissioner State of California  JANICE ROCCO Deputy Commissioner Health Care Policy and Reform State of California  //	1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25	INDEX SPEAKERS/WITNESSES:  For Aetna, Inc. ("Aetna"):  AETNA, INC. BY: FRANCIS S. SOISTMAN, Executive Vice President and Head of Government Services  For Aetna, Inc. ("Aetna"): AETNA, Inc. BY: GREGORY S. MARTINO, Assistant Vice President and State Government Affairs  For Humana, Inc. ("Humana"):  HUMANA, Inc. JAEWON RYU, Vice President, Health Services Segment and President, Integrated Care Delivery  For the Department of Insurance: SHEIRIN GHODDOUCY, Staff Counsel California Department of Insurance, Legal Division  For Consumer Groups: DENA MENDELSON, Staff Attorney Consumers Union  TAM MA, Policy Counsel Health Access Emily Rusch, Executive Director CALPIRG  //
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<p>1 SACRAMENTO, CALIFORNIA; WEDNESDAY, APRIL 27, 2016</p> <p>2 9:15 A.M.</p> <p>3 - - -</p> <p>4 COMMISSIONER JONES: Thank you, all. I want to</p> <p>5 remind everyone that the hearing is being transcribed.</p> <p>6 It's also being a live web video cast. There will be a</p> <p>7 digital copy of the hearing available on our website at</p> <p>8 the conclusion of the hearing. Please, to those of you</p> <p>9 that will be testifying, speak clearly and deliberately</p> <p>10 enough so that the reporter -- court reporter can</p> <p>11 accurately transcribe your testimony, as she may throw a</p> <p>12 flag at some point if I begin to move too quickly or</p> <p>13 anyone begins to move too quickly.</p> <p>14 And I would encourage the court reporter to tell</p> <p>15 us that if we need to take a break at some point.</p> <p>16 Our plan at this juncture is to hear from the</p> <p>17 insurance companies. I'll have some questions. We'll</p> <p>18 take a break. At that point we'll have an opportunity</p> <p>19 then to hear some testimony from the Department of</p> <p>20 Insurance regarding consumer complaints. Then we'll move</p> <p>21 to consumer organizations that are interested in</p> <p>22 testifying. Medical provider organizations that have</p> <p>23 identified that they want to testify, and then any other</p> <p>24 members of the public. Our goal is to complete the</p> <p>25 hearing by 12:00. It's possible we might go a little bit</p> <p>Page 10</p>	<p>1 like to thank the California Department of Insurance for</p> <p>2 this opportunity to provide an overview of the</p> <p>3 Aetna-Humana transaction, and how the new company will</p> <p>4 benefit consumers, employers and providers, among other</p> <p>5 important constituents.</p> <p>6 For several years, Aetna has been pursuing a</p> <p>7 mission of building a healthier world, reshaping health</p> <p>8 our care system to be more consumer centric in order to</p> <p>9 give our members as many healthy days as possible. In</p> <p>10 Humana, we've found the ideal partner to compliment and</p> <p>11 accelerate our efforts as a company with an enterprise</p> <p>12 goal to improve the health of the communities they serve</p> <p>13 by 20 percent by the year 2020.</p> <p>14 The Aetna acquisition of Humana is about two</p> <p>15 companies coming together to offer more people a broader</p> <p>16 choice of higher quality and more affordable health plan</p> <p>17 options. Our companies are highly complimentary,</p> <p>18 combining Aetna's focus on commercial and group products,</p> <p>19 with Humana's concentration on Medicare Advantage.</p> <p>20 I'll explain the benefits from this transaction,</p> <p>21 Most notably, Medicare Advantage benefits from the</p> <p>22 combination of two companies, with top rated MediCare</p> <p>23 plans, as this transaction allows Aetna to offer Humana's</p> <p>24 highly skilled care and service model to the rapidly</p> <p>25 growing medicare eligible population. After the</p> <p>Page 12</p>
<p>1 over. But I'm going to try to keep us moving so we can</p> <p>2 hopefully stay within that three hours.</p> <p>3 So I want to welcome the representatives of</p> <p>4 Humana and Aetna to the hearing and ask you to please</p> <p>5 introduce yourselves. In turn, it's my understanding that</p> <p>6 collectively you may have something on the order of about</p> <p>7 25 minutes of testimony. We're most interested in hearing</p> <p>8 it. And then I'll have some questions after that. So</p> <p>9 welcome.</p> <p>10 MR. MARTINO: Thank you.</p> <p>11 MR. SOISTMAN: Good morning. My name is Fran</p> <p>12 Soistman. I'm the Executive Vice President and Head of</p> <p>13 Government Services of Aetna.</p> <p>14 DR. RYU: I'm Dr. Jaewon Ryu. President of</p> <p>15 Integrated Care Delivery at Humana.</p> <p>16 MR. MARTINO: Greg Martino, Aetna Assistant Vice</p> <p>17 President for State Government Affairs.</p> <p>18 THE COMMISSIONER: Welcome, Gentleman. I'm not</p> <p>19 sure what order you wish to proceed in. But the choice is</p> <p>20 yours.</p> <p>21 MR. SOISTMAN: Thank you, Commissioner. Thank</p> <p>22 you to the Commission. Thank you Deputy Commissioner.</p> <p>23 Good morning everyone.</p> <p>24 My name is Fran Soistman. I'm Executive Vice</p> <p>25 President, Head of Government Services for Aetna. I'd</p> <p>Page 11</p>	<p>1 acquisition, Aetna will have a product portfolio balanced</p> <p>2 more evenly between commercial, government production such</p> <p>3 as MediCare and Medicaid. We will take the best of both</p> <p>4 companies in order to make us an even stronger and more</p> <p>5 reliable source of quality affordable products for</p> <p>6 California consumers in the years to come. We're</p> <p>7 committed to working with the California Department of</p> <p>8 Insurance to provide you, along with our customers, our</p> <p>9 provider partners, our associates and the people of</p> <p>10 California greater insight into this transaction, and to</p> <p>11 share with you our vision for how, with Humana, we can</p> <p>12 help more people to lead healthier lives.</p> <p>13 Before we get into the benefits of the</p> <p>14 acquisition, I would like to talk about Aetna's presence</p> <p>15 in California today. In California there are over 40</p> <p>16 health care plans, and Aetna's proud to be in this market.</p> <p>17 Our commercial California base serves approximately 1.4</p> <p>18 million, or about 7.3 percent of California's commercial</p> <p>19 beneficiaries in the larger and small group markets, along</p> <p>20 with servicing members in specialty markets.</p> <p>21 Additionally, Aetna currently serves a modest number of</p> <p>22 Medicare Advantage beneficiaries in California.</p> <p>23 Approximately 18,000 members. Which is less than one</p> <p>24 percent of the Medicare population in the state.</p> <p>25 This adds to the Humana presence, which is</p> <p>Page 13</p>

4 (Pages 10 to 13)

<p>1 primary in the Medicare Advantage space and is limited to 2 approximately 62,000 Medicare Advantage beneficiaries, or 3 about one percent of the Medicare population in the state 4 of California. Thus, if this transaction is approved, 5 Aetna and Humana will offer coverage to approximately two 6 percent of California Medicare beneficiaries. And we will 7 be better positioned to offer valuable products to 8 California residents, enhanced competition in California's 9 market.</p> <p>10 All told, we believe that this acquisition, 11 while limited in scope to 62,000 Humana Medicare Advantage 12 enrollees, will strengthen our combined ability to give 13 the fast-growing California Medicare population a broader 14 choice and a more competitive marketplace.</p> <p>15 As this transaction is primarily about Medicare, 16 I want to share a new facts and California specific 17 perspectives, how the combination of the two companies 18 impacts Medicare offerings and competition.</p> <p>19 The Medicare population is the fastest-growing 20 segment in our country today. And in fact, 11,000 21 Americans age into Medicare eligibility every day. By the 22 year 2030, 80 million Americans will be enrolled in 23 Medicare, an increase of almost 50 percent, from 54 24 million in 2015. Today, California has the largest 25 Medicare population in the country, with approximately 5.6</p> <p>Page 14</p>	<p>1 and federal regulatory rules. Under the terms of the 2 transaction, each of Humana's insureds become a direct 3 subsidiary of that market. Mark Bertolini, the CEO, will 4 remain the CEO of the new combined entity. The Aetna 5 board directors will be expanded to include four of the 6 current Humana board members. The shareholders, both 7 Aetna and Humana, have approved the transaction. And 8 finally, we're currently working with the State and the 9 Department of Justice on the approval of our transaction, 10 which we anticipate to occur in the second half of the 11 year.</p> <p>12 I'd like now to turn my attention to the 13 benefits to consumers. You're here because you want 14 insurance to work, and so do we. We collectively want the 15 best possible outcomes for consumers, our customers. This 16 transaction will benefit consumers by improving quality, 17 simplifying the health care experience, improving access 18 and engagement, increasing healthy days, and developing 19 much-needed technologies and innovations to help make 20 health care more affordable. Today, the market competes 21 on price and choice of doctor. And this will not change.</p> <p>22 But to create greater value, we believe we need 23 to better engage consumers, simplify the process, and 24 increase the number of healthy days. With this 25 transaction, we expect to achieve 1.35 billion in cost</p> <p>Page 16</p>
<p>1 million Medicare beneficiaries residing throughout the 2 state.</p> <p>3 Acquiring Humana, that gives Aetna the 4 opportunity to extend its existing capabilities to serve 5 more Medicare members, and provide those individuals a 6 broader array of high quality programs.</p> <p>7 With respect to California, in 2015 there were 8 over 13 major health care companies that offer a Medicare 9 Advantage product, more than 2.1 million, 38 percent of 10 California's Medicare beneficiaries were enrolled in a 11 Medicare Advantage plan. 2015, the remaining 62 percent 12 received their health benefits from traditional Medicare 13 fee-for-service. 97 percent of Medicare beneficiaries in 14 California have access to at least one Medicare Advantage 15 plan option, and on average have a choice of 21 Medicare 16 Advantage plan options in 2015.</p> <p>17 And as I referred earlier, Aetna and Humana 18 combined will have less than two percent market share in 19 California Medicare Advantage market.</p> <p>20 Our goal is to provide a stronger product option 21 for Medicare enrollees in this important state.</p> <p>22 So now let me take a minute to briefly review 23 the business terms of the transaction, to provide a sense 24 of how the new combined company will be organized, and 25 also provide an update on our work to date to secure state</p> <p>Page 15</p>	<p>1 savings in 2018. And they're recurring savings 2 thereafter, by becoming more efficient. We intend to have 3 a significant portion of these savings flow back to 4 consumers through medical and pharmacy coverage that 5 remains affordable, lower out-of-pocket costs, and better 6 health outcomes. Consumers will see lower overall costs 7 and a simpler experience than they would otherwise. These 8 savings will improve consumers' experience and options in 9 ways beyond increasing coverage options and improving 10 long-term affordability.</p> <p>11 We also intend to invest these savings to 12 improve the quality of services we offer to consumers. 13 Both companies see healthy days as a valid measure of 14 individual and community health improvement. We both are 15 committed to offering products and services that will help 16 our members improve the number of healthy days that they 17 can enjoy each year.</p> <p>18 You can see the results of these efforts 19 reflected in both Aetna and Humana's Medicare Advantage 20 star ratings in 2015. Nationally, the two companies were 21 number one and number two in star ratings among 22 publicly-traded companies in 85 percent of Aetna's 23 Medicare Advantage members nationwide. Our plans are for 24 a higher star rating. We continue to invest and work hard 25 to maintain and improve these star ratings.</p> <p>Page 17</p>

<p>1 With respect to benefits to providers, doctors 2 want to care for patients. I want to help them stay well 3 or get better, not spend time on the administrative 4 bureaucracy. We're committed to new value based systems 5 where we can work collaboratively with hospitals and 6 physicians to align the incentives that reward the overall 7 health of the individual. Many providers support our 8 efforts. We believe that by coming together, we can grow 9 our partnership with providers and improve care. 10 Currently, Aetna has partnerships in place with 11 premiere medical groups and health systems throughout 12 California, including Prime Care Medical Group network, 13 Sharp Health Care, Memorial Care Health System, Santa 14 Clara County IPA, Heald Medical Group, Dignity Health and 15 Brown and Toland Medical Group. These groups you 16 recognize for their leadership in clinical quality patient 17 experience, and effectively managing cost benefits to 18 employers. By bringing our insights and solutions 19 together, Aetna and Humana will be able to offer employees 20 new solutions to lower cost and enhance the health and 21 wellness of employees and their families. This will help 22 employers improve the cost and value of the benefit 23 programs, as well as their ability to attract top talent. 24 Across the country, our partnership with providers are 25 bringing new products to the market for employers and</p> <p>Page 18</p>	<p>1 premiums were accurate. 2 In the latter half of 2014, medical costs 3 increased dramatically, and it became clear that our 4 earlier estimates were understated. Recognizing the 5 estimates were low, the earliest we could adjust for rates 6 was the first quarter of 2015, causing unusually high rate 7 filings. Rate increases are difficult and not an issue we 8 take lightly. Our rates are based on actuarially sound 9 data and appropriate projection of future medical costs, 10 which remain the primary driver of insurance premiums. 11 Our rate development for the small group business is 12 independently reviewed and verified by a nationally 13 acclaimed actuarial consulting firm. We're taking steps 14 to keep our products as affordable as possible and to 15 address the underlying medical costs and other factors 16 driving health care costs, including developing new 17 partnerships with health care providers in creating new 18 medical management programs that prevent, identify and 19 address potential health issues for members earlier in the 20 process. We believe our small group offers are more 21 stable for 2016, thus supporting our objective to grow our 22 small group membership. 23 So let me shift gears and share Aetna's 24 diversity and corporate social responsibility. While 25 we're headquartered in Connecticut, Aetna has over 2,700</p> <p>Page 20</p>
<p>1 employees. In some geographies, Aetna has been able to 2 offer employer-based products that are three to five 3 percent below the competition, by offering plans in 4 partnership with leading provider systems. 5 The combination of Aetna and Humana allows us to 6 offer a broader choice of more affordable, high quality 7 products to employers. 8 I'd like to now comment on recent challenges 9 we've addressed. With our small group market business in 10 California, Aetna takes its commitment to California small 11 business customers seriously. And we are making every 12 effort to offer a range of plans to allow our small group 13 customers to select and choose options that best meet 14 their unique needs. However, in 2015, adjustments were 15 needed to respond to economic and market conditions and 16 changing federal regulatory requirements. 17 Our approach to setting rates is to change them 18 by the same percent as the change in projected health care 19 costs. When projected premiums or costs differ from the 20 actual health care costs, there can be additional rate 21 adjustments. The exact change in a given year depends on 22 provider contacts, pharmacy costs, utilization of savings 23 of services and many other factors. Our initial premiums 24 were based on best estimates of medical costs under the 25 new national framework, and early indicators suggest these</p> <p>Page 19</p>	<p>1 dedicated employees across the state of California, 2 including being one of the largest private employers in 3 the City of Fresno, with over a thousand associates, with 4 a commitment to adding an additional 225 positions by 5 2017. We think we bring value to Fresno. And our service 6 center is by California State University. Even when our 7 student employees work in accordance with their school 8 schedule, we can get back to a community unemployment rate 9 is 9.9 percent, or twice the national rate of five and 10 four percent. 11 We also have offices in San Diego, Orange 12 County, downtown Los Angeles, Woodland Hills, Walnut 13 Creek, San Francisco and of course right here in 14 Sacramento. In addition, Humana has more than 500 15 employees in California. Aetna has made strong 16 commitments across its employee base, raising our minimum 17 wage to \$16 per hour starting in April of 2015, in 18 subsidizing health care benefits for employees whose 19 household income is less than 300 percent of the federal 20 poverty level. As part of this transaction, these 21 benefits will be extended for a similar group of 10,000 22 Humana employees in California. And nationwide, Aetna and 23 Humana are committed to accessing quality health care. 24 However, we're just as committed to diversity, 25 which is a core business value and an important element of</p> <p>Page 21</p>

<p>1 our culture. Aetna was ranked Diversity Inc.'s top 50 2 companies for diversity nine times since the rankings 3 began in 2001, including this year, 2016. With respect to 4 diversity, we've taken action to ensure diversity is 5 integrated into all aspects of how we do business, 6 including diversifying a supplier base. Business across 7 cultures and geographies is important. We have a long 8 commitment to our LGBT employees and greater LGBT 9 community, from being one of the first companies 10 implementing changes to policies for domestic partners, to 11 being the first major health benefits company in 2009 to 12 offer transgender inclusive benefits for our employees and 13 any contracting companies choosing to do so for their 14 employees, among other benefits.</p> <p>15 Both Aetna and Humana have a significant 16 commitment to improving the health and wellbeing of 17 Californians through our foundation, corporation giving 18 and employee volunteerism. Aetna has invested over 4.6 19 million dollars in California since 2010 to spark 20 improvements in people's health through community grants 21 and national partnerships. In addition, Aetna employees 22 have volunteered over 250,000 hours since 2003 to 23 California-based non-profits and organizations.</p> <p>24 In closing, mergers and acquisitions are not 25 just about efficiencies and business goals. Aetna's</p> <p>Page 22</p>	<p>1 Prior to this role, I served as a clinical 2 leader at Kaiser Permanente. And before that, I practiced 3 emergency medicine in a Los Angeles Emergency Room. I 4 have also served in federal government with, both serving 5 at the Centers for Medicare and Medicaid Services and a 6 White House Fellow at the Department of Veterans Affairs. 7 Through these experiences, I learned a great deal about 8 the relationship between providers and insurers and how 9 this critical partnership shapes the quality of care 10 delivered to our members.</p> <p>11 I want to follow on Mr. Soistman's remarks to 12 share some additional background about Humana and our 13 largely Medicare-based presence in this state. I also 14 will highlight the value we believe a new combined 15 Aetna-Humana company will bring to California from the 16 perspective of supporting innovative consumer center 17 provider and health plan partnerships.</p> <p>18 First, I want to express my sincere confidence 19 that this transaction, which brings together two highly 20 complimentary organizations, will provide genuine benefits 21 to the people in communities of California, and the 22 country at large, as we work to advance our shared goals 23 of enhancing our members' health and well-being. Both 24 Aetna and Humana have a proud history of innovative 25 quality and consumer engagement at health care. Here in</p> <p>Page 24</p>
<p>1 acquisition of Humana is about creating a positive change 2 in the health care market. It's about being a part of an 3 effort to build a 21st century health care system, built 4 around engaging the consumer and increasing the number of 5 healthy days. And by partnering with hospitals, 6 physicians and other providers to improve health outcomes, 7 we believe our acquisition will enhance the health care 8 market by providing more consumers access to more 9 affordable and higher quality products.</p> <p>10 So I want to thank you for the opportunity to 11 testify today. With that, I would like to introduce Dr. 12 Jaewon Ryu, President of Humana's Integrated Care 13 Delivery.</p> <p>14 COMMISSIONER JONES: Thank you.</p> <p>15 DR. RYU: Thank you. Good morning. On behalf 16 of Humana, I want to Thank Commissioner Jones and the 17 Department of Insurance for hosting this public hearing on 18 Aetna's acquisition of Humana.</p> <p>19 I'm Dr. Jaewon Ryu. I'm proud to serve Humana's 20 Integrated Care Delivery. In my role, I'm responsible for 21 overseeing Humana's engagement with care delivery 22 practices and unique population, health based practices, 23 which we use to help facilitate physicians and improve the 24 patient experience and enhance care outcomes across 25 Medicare Advantage spaces.</p> <p>Page 23</p>	<p>1 California, Humana provides comprehensive health care 2 coverage to approximately 60,000 residents through the 3 Federal Medicare Advantage program, in 21 counties. Our 4 operations are carried out by more than 500 Humana 5 employees in the state. We are, and have always been, 6 committed to excellence across our care offerings.</p> <p>7 As evidence of the quality of our plans, our 8 California Medicare Advantage plan received a four star 9 level in the most recent star quality ratings, which apply 10 to the 2017 contract year. It is through our medicare 11 offers that we deploy innovative, high quality health plan 12 choices to Medicare beneficiaries, based largely on our 13 unique clinical and provider partnership strategies, 14 innovations of care delivery and the member experience and 15 clinical and consumer insights, all together to encourage 16 engagement, behavior change, productive clinical outreach 17 and wellness for millions of people we serve across the 18 country. In particular, our integrated approach to 19 Medicare Advantage brings value outcomes to the members we 20 serve and the providers with whom we partner.</p> <p>21 On average, we have found that such value-based 22 arrangements account for 18 percent lower medical costs 23 for members, compared to Medicare members in traditional 24 fee-for-service arrangements. Additionally, we know that 25 we're committed to enhancing health care across this state</p> <p>Page 25</p>

<p>1 to help support people's ability to experience better 2 overall health and healthy days, which the CDC's medical 3 director measures the number of days that a person reports 4 feeling healthy.</p> <p>5 One way Humana helps members increase healthy 6 days is through the Humana at home program. Through this, 7 Humana supports members with care members who connect with 8 them telephonically, as well as through home visits, to 9 develop a more holistic development to health. This 10 approach provides active management to those at risk. 11 Members who are identified participate in our chronic 12 health care program, helping to ensure they get the care 13 they need, and ultimately avoid unnecessary 14 hospitalization. Currently, over 13 percent of our 15 California members benefit from this active management, 16 compared with typical medical groups who actively manage 17 roughly five percent of their patient's care.</p> <p>18 In California, these individuals experienced a 19 58 percent reduction in hospital admissions within 20 30 days, and had close to a 50-percent decrease in 21 hospitalization admission overall, and close to a 22 30-percent decrease in Emergency Room visits.</p> <p>23 Humana also addresses social determinants of 24 care by helping to deploy ramps and bars into members 25 homes, providing transportation for those members to see</p> <p>Page 26</p>	<p>1 team. This provides inpatient and outpatient integrated 2 care management, and targets specific disease, 3 interconnects patients with license specialists, chronic 4 care and disease management and wellness programs.</p> <p>5 The interrogated care team approach also helps 6 to assure that most of these patients receive services as 7 close to home as possible. Initially, results of this 8 integrated approach are promising. At this date, the 9 pharmacy interventions alone account for improved member 10 reported quality of life and satisfaction, as well as cost 11 savings.</p> <p>12 Humana's primary commitment is to our members. 13 We believe that to be successful, we need to not only 14 compete on price, but also on how effectively we engage 15 out patients and keep them healthy and make it easier to 16 navigate a complex health care system. A goal of the 17 combined Aetna-Humana organization will be to share the 18 benefits of that combination with the people in the 19 communities it serves, and the health care providers with 20 whom it partners.</p> <p>21 In closing, I would just like to say we see 22 tremendous value in Aetna, and are genuinely excited about 23 this transaction and our ability, as a combined 24 organization, to achieve our shared mission and goals of 25 building a healthier world. This transaction will bring</p> <p>Page 28</p>
<p>1 their physicians, and ensuring they have food in their 2 homes, as well as access to needed financial assistance 3 programs.</p> <p>4 Humana also benefits providers and the medical 5 communities by partnering directly with physician groups 6 and health care systems to support Californians moving to 7 value-based integrated care, all focused on improving 8 health care delivery and population health following the 9 approval of the transaction. Aetna and Humana's 10 corrective partners will be enhanced by the additional 11 tools and innovations that the combined organization can 12 offer to assist providers in this movement towards 13 value-based care.</p> <p>14 Additionally, and perhaps even more importantly, 15 we will be able to leverage provider partnerships and care 16 capabilities across a broader patient base within a given 17 provider's patient panel. For example, in the California 18 counties where we offer a Medicare Advantage plan, Humana 19 has formed a number of value-based partnerships with 20 integrated delivery systems to provide a personalized 21 coordinated care with an increased emphasis on preventive 22 services for our Medicare Advantage members.</p> <p>23 One of these partners is in central California 24 and focuses on implementing population health management 25 through the development of an innovative virtual care</p> <p>Page 27</p>	<p>1 together two highly complimentary companies, creating a 2 new type of health care company, that allows for benefit 3 in class provider partnerships and better health care 4 outcomes for our members. Simply put, the combination 5 helps to compliment and accelerate our respective efforts 6 to improve health care in California and across the 7 country. Both companies share a strong commitment to 8 quality and to health care innovations, particularly with 9 respect to provider and physician engagement models, 10 focusing on health outcomes, value and analytic support. 11 We are confident that Humana's experience in California 12 will be building on the best practices we've learned here, 13 and with Aetna, those practices will go to the members we 14 collectively serve across the country.</p> <p>15 Thank you.</p> <p>16 COMMISSIONER JONES: Thank you, Dr. Ryu. 17 Mr. Martino.</p> <p>18 MR. MARTINO: No comments at this time.</p> <p>19 COMMISSIONER JONES: Okay. Well, I really 20 appreciate your testimony. I have some questions. And I 21 want to check with the court reporter.</p> <p>22 THE COURT REPORTER: I am fine. Thank you 23 Commissioner.</p> <p>24 COMMISSIONER JONES: And I'll direct these to 25 all of you as a panel. And you can decide which of you is</p> <p>Page 29</p>



<p>1 best positioned to answer.</p> <p>2 The first, will Aetna and Humana continue to</p> <p>3 operate as separate companies in the California market?</p> <p>4 Or will their operations be combined in some way, under</p> <p>5 Aetna-Humana or Aetna brand?</p> <p>6 MR. SOISTMAN: Commissioner, closing possible</p> <p>7 approval by federal and state regulatory processes, there</p> <p>8 will be a multi-year integration process. And in</p> <p>9 California, it's important to remember that Humana does</p> <p>10 not have a commercial health presence. So there really is</p> <p>11 no implication here in California on the commercial health</p> <p>12 side.</p> <p>13 On the Medicare Advantage side, we would be</p> <p>14 combining the infrastructure of those programs. The CMS</p> <p>15 provides us three years to complete that combination.</p> <p>16 COMMISSIONER JONES: At the operational -- will</p> <p>17 the operational leadership change with regard to a</p> <p>18 combined entity ultimately that's offering the Medicare</p> <p>19 Advantage policies?</p> <p>20 MR. SOISTMAN: For the first year we will be</p> <p>21 running both businesses parallel, because of, obviously,</p> <p>22 the complexities of -- and the size of these two Medicare</p> <p>23 Advantage programs. And the timing will likely coincide</p> <p>24 with the national election period. We don't want to</p> <p>25 create any disruption. We want to have an opportunity to</p> <p>Page 30</p>	<p>1 into new markets. And I think you can certainly</p> <p>2 appreciate the turbulence that the health insurance</p> <p>3 industry has experienced in the public exchange market</p> <p>4 over the last couple years. So we take a very measured</p> <p>5 approach in choosing the markets where we can have a cost</p> <p>6 competitive structure, that we can provide a value to our</p> <p>7 perspective members. And that will be our approach going</p> <p>8 forward.</p> <p>9 That said, California is obviously the largest</p> <p>10 state in the nation. And we certainly would continue to</p> <p>11 look at how could we be successful in California. But we</p> <p>12 haven't made any decisions one way or the other with</p> <p>13 respect to what -- whether that would be in 2018 or</p> <p>14 beyond.</p> <p>15 COMMISSIONER JONES: What about with regard to</p> <p>16 California's exchange, not only is Aetna not in the</p> <p>17 individual market outside of California's exchange, but</p> <p>18 Aetna's also not in the exchange. And the exchange is</p> <p>19 seeking applicants going forward to participate in the</p> <p>20 exchange. Does the combined entity have any plans with</p> <p>21 regard to applying for entry to California's exchange?</p> <p>22 Covered California?</p> <p>23 MR. SOISTMAN: Sure. We've not been able to</p> <p>24 have those kinds of discussions. We're competing</p> <p>25 currently, and we'll continue to compete with Humana up</p> <p>Page 32</p>
<p>1 have careful, thoughtful execution of our integration.</p> <p>2 And so we envision that the plans will continue in the</p> <p>3 Medicare Advantage side to run in parallel for the first</p> <p>4 year.</p> <p>5 COMMISSIONER JONES: Aetna, in other states, is</p> <p>6 in the individual market, if I'm not mistaken.</p> <p>7 MR. SOISTMAN: We participate in 16 states on</p> <p>8 the public exchange.</p> <p>9 COMMISSIONER JONES: And what about outside the</p> <p>10 public exchange? Are you in the individual market in any</p> <p>11 states outside the public exchange?</p> <p>12 MR. SOISTMAN: There's -- I believe it's about</p> <p>13 eight states beyond the public exchange, that we're off</p> <p>14 exchange.</p> <p>15 COMMISSIONER JONES: So roughly 24 or so states</p> <p>16 in which Aetna's either in the exchange or outside the</p> <p>17 exchange, but in the individual market one way or the</p> <p>18 other.</p> <p>19 MR. SOISTMAN: Approximately. Yes.</p> <p>20 COMMISSIONER JONES: Does the combined entity</p> <p>21 have any plans to enter the individual commercial market</p> <p>22 in California post merger?</p> <p>23 MR. SOISTMAN: That's a very fair question,</p> <p>24 Commissioner. I would say that every year we look at each</p> <p>25 market, our current footprint, and opportunities to expand</p> <p>Page 31</p>	<p>1 until the time that we receive approval. So we have not</p> <p>2 had strategic discussions about how could we combine the</p> <p>3 companies in a particular market for a specific line of</p> <p>4 business exchange in particular. So I think it's one</p> <p>5 where we will continue to see how the Affordable Act --</p> <p>6 Affordable Care Act evolves, what California continues to</p> <p>7 do to evolve your public exchange, and when we can provide</p> <p>8 a competitive cost structure that adds value to</p> <p>9 Californians by competing here, that's when we'll answer</p> <p>10 it.</p> <p>11 COMMISSIONER JONES: What about Aetna alone in</p> <p>12 its current condition, if you will, apart from the merger?</p> <p>13 Has Aetna any plans separately to enter the California</p> <p>14 exchange?</p> <p>15 MR. SOISTMAN: At the present time, we did not</p> <p>16 have plans for 2017. We would -- again, we have</p> <p>17 approached the market very, very thoughtfully, carefully,</p> <p>18 given the uncertainties that we've been navigating over</p> <p>19 the last couple years. And even in the states where we</p> <p>20 participate, our footprint is oftentimes defined by MSAs</p> <p>21 or chairs of counties, and not on a statewide basis.</p> <p>22 COMMISSIONER JONES: Dr. Ryu, do you know how</p> <p>23 many markets, how many states Humana is in with regard to</p> <p>24 the commercial market in those states, outside of Medicare</p> <p>25 Advantage?</p> <p>Page 33</p>

<p>1 DR. RYU: I don't off the top of my head.</p> <p>2 COMMISSIONER JONES: Could you provide us with</p> <p>3 that information?</p> <p>4 DR. RYU: Sure. I'd be happy to do that.</p> <p>5 COMMISSIONER JONES: And -- thank you. And is</p> <p>6 Humana separately in any conversations with Covered</p> <p>7 California about entering the exchange for the 2017 or</p> <p>8 future year's market?</p> <p>9 DR. RYU: I'm not aware of any plans for entry</p> <p>10 in the 2017 year's plan.</p> <p>11 COMMISSIONER JONES: With regard to the Medicare</p> <p>12 Advantage market share of both companies, there was a</p> <p>13 study conducted by Cattaneo and Stroud, Incorporated,</p> <p>14 which used enrollment data from March 31st, 2015, and</p> <p>15 found the proposed merger would reduce competitiveness in</p> <p>16 the Medicare market in California in eight different</p> <p>17 counties. And these eight counties include the five</p> <p>18 largest counties in the state by population. And the</p> <p>19 combined population of these counties is 23.8 million</p> <p>20 Californians, 60 percent of the entire state population.</p> <p>21 I'm wondering if Aetna or Humana have any</p> <p>22 response to the findings in that study with regard to the</p> <p>23 potential loss of competitiveness in those eight counties,</p> <p>24 Medicare Advantage markets associated with this merger.</p> <p>25 MR. SOISTMAN: Commissioner, I have not seen</p> <p>Page 34</p>	<p>1 MR. SOISTMAN: Again, Commissioner, with all due</p> <p>2 respect, I have not seen the study, so it would be</p> <p>3 difficult for me to comment on. You know, the source of</p> <p>4 the competitiveness, the number of lives that are</p> <p>5 involved -- certainly have to have a chance to look at</p> <p>6 that to better understand it.</p> <p>7 COMMISSIONER JONES: I'd like to give you an</p> <p>8 opportunity to do so, because I think it's a very</p> <p>9 important study. It's one that not only this Department</p> <p>10 has been aware of, but the Department of Managed Health</p> <p>11 Care also has the results of this study. They're</p> <p>12 independently looking at this merger as well.</p> <p>13 I'm wondering if Dr. Ryu of Humana has had a</p> <p>14 chance to review the study in question, and has any</p> <p>15 response to it?</p> <p>16 MR. RYU: No. We have not reviewed this study</p> <p>17 either.</p> <p>18 COMMISSIONER JONES: Okay. I would like to give</p> <p>19 you both an opportunity to provide a response to the</p> <p>20 question about the studies' findings and its conclusion</p> <p>21 that the merger will reduce competition in these eight</p> <p>22 counties' Medicare Advantage markets.</p> <p>23 MR. SOISTMAN: We'd be happy to do so.</p> <p>24 COMMISSIONER JONES: Thank you. The other</p> <p>25 question I have is whether Aetna will be willing to</p> <p>Page 36</p>
<p>1 that study. Certainly I'd like to take a look at it and</p> <p>2 understand when that data was prepared. I look at the</p> <p>3 Medicare market in California as one of the most dynamic</p> <p>4 in the nation.</p> <p>5 As I mentioned earlier, there's, you know, 13</p> <p>6 different Medicare Advantage organizations, offering over</p> <p>7 28 different plan options throughout the state. It's</p> <p>8 highly competitive today. And given that it's the fastest</p> <p>9 growing segment, because of demographics, I believe that</p> <p>10 it will continue to be very competitive as new competitors</p> <p>11 come into the market.</p> <p>12 What we've observed nationwide is, over the last</p> <p>13 four years, 28 new organizations and businesses have come</p> <p>14 into the Medicare Advantage segment. And of those, 15 are</p> <p>15 provider response or provider facilitated organizations.</p> <p>16 This is a very attractive business segment for</p> <p>17 provider-based organizations to get into, as well as other</p> <p>18 businesses, because of essentially the growth opportunity.</p> <p>19 So I think it's a very, very dynamic, very healthy,</p> <p>20 competitive environment here in California.</p> <p>21 COMMISSIONER JONES: Are there any specific</p> <p>22 mitigation measures that Aetna is proposing to take post</p> <p>23 merger to mitigate the findings in the study with regard</p> <p>24 to reduced competitiveness in the Medicare Advantage</p> <p>25 market in those eight counties?</p> <p>Page 35</p>	<p>1 provide the Form E analysis, which is a pre-actuarial</p> <p>2 notification regarding the potential of the California</p> <p>3 market using the Form E and the NIC model regulation 450.</p> <p>4 This is a standard form that's used in context of mergers.</p> <p>5 It's very helpful for reviewing for the Department to have</p> <p>6 the form and the information in the form provided to the</p> <p>7 Department.</p> <p>8 Because you're not domiciled here, it's not a</p> <p>9 requirement. But it would be of great assistance to me</p> <p>10 and my Department to better understand the impact of the</p> <p>11 merger would Aetna be willing to provide that form.</p> <p>12 MR. MARTINO: Yes. We certainly can pull</p> <p>13 together a Form E for you and submit the Form E if it's</p> <p>14 appropriate. Recognizing that with minimal commercial</p> <p>15 marketplace, very little overlap, and minimal amount of</p> <p>16 Medicare Advantage membership in the -- for Aetna, at</p> <p>17 12,000 members, would still be very little impact.</p> <p>18 Certainly, we'll pull that information together.</p> <p>19 COMMISSIONER JONES: I appreciate it. That form</p> <p>20 E filing from the company would be most helpful.</p> <p>21 I understand from your testimony that the</p> <p>22 nationwide cost savings synergies associated with the</p> <p>23 merger is estimated to be 1.25 billion dollars. Is that</p> <p>24 correct?</p> <p>25 MR. SOISTMAN: That is the estimated cost</p> <p>Page 37</p>

<p>1 savings by 2018. There will be a ramp-up period, based on 2 timing of approving and closing of the transaction. But 3 it's estimated that it -- that would be about 250 million 4 in 2016, going to 750 million in 2017, ultimately hitting 5 about 1.25 billion by 2018. And that would be on a -- 6 let's say importunity basis going on.</p> <p>7 COMMISSIONER JONES: That was my next question, 8 Mr. Soistman. Your testimony said the savings would be 9 recurring. I was curious as to the amount of the 10 recurring savings. But the -- ultimately 1.2 billion 11 dollars of savings, if that the estimate, will be an 12 ongoing savings?</p> <p>13 MR. SOISTMAN: That's right, Commissioner.</p> <p>14 COMMISSIONER JONES: Can you break down for us 15 the distribution, if you will, of the savings across 16 different operations of the -- of the combined company? 17 Where is the savings coming from?</p> <p>18 MR. SOISTMAN: Well, the savings will come from 19 multiple areas. Initially it would come from the 20 redundancy of the administrative servers incorporated 21 overhead. The fact that we have had two public companies, 22 obviously we won't need to have two public companies going 23 forward.</p> <p>24 In the longer term, remember that we'll have a 25 ramp-up period. It will be the ability to combine</p> <p>Page 38</p>	<p>1 with pharmacies for example, our network arrangements, 2 where Humana may not have access to a provider network 3 that Aetna has. And this will now enjoy access to that, 4 for their commercial business. Aetna may enjoy Humana's 5 network in overlapping markets over time. So that will 6 produce savings as well. So there will be multiple 7 savings over time.</p> <p>8 COMMISSIONER JONES: The filing indicated 100 9 million dollars reduced network expenses. I'm wondering 10 if you can share with us how the combined entity 11 anticipates obtaining 100 million dollars in shared 12 network expense savings.</p> <p>13 MR. SOISTMAN: I don't have that detail with me 14 today, Commissioner.</p> <p>15 COMMISSIONER JONES: Could you provide that to 16 us separately?</p> <p>17 MR. SOISTMAN: I'm sure we can provide 18 additional detail.</p> <p>19 COMMISSIONER JONES: Appreciate it. And then 20 the filing also indicated 100 million dollars in reduced 21 medical management expense, and I'm wondering if you could 22 share with us how 100 million dollars in reduced medical 23 management expense will be obtained.</p> <p>24 MR. SOISTMAN: It really goes back to that 25 redundancy, where we're going to take best practices. So</p> <p>Page 40</p>
<p>1 information technology and operating systems to be able to 2 retire systems. And that will produce the larger savings 3 over time. It will take time. That's -- that obviously 4 is the most complex part of that. Because that's where 5 you have to be very mindful of making sure that our 6 members don't experience any disruption.</p> <p>7 COMMISSIONER JONES: The October 8th, 2015 8 filing by Aetna with the Department of Managed Health 9 Care, in that filing, Aetna noted that approximately 1.05 10 billion dollars of savings would come from reduced 11 selling, general and administrative expenses. Can you 12 elaborate in a little more detail where specifically that 13 1.05 billion will come from in the category of selling, 14 general and administrative expense reductions?</p> <p>15 MR. SOISTMAN: Well, that's how we put in a 16 broader category, the examination I provided are those 17 that I would still refer to. It's the first view of 18 opportunity wherever there's unnecessary redundancy. And 19 the fact that we can take the best of both organizations 20 and determine which of those should be, you know, the 21 surviving best practice, best operating system and so 22 forth, and eliminate the other. And that will occur over 23 time.</p> <p>24 There will be other forms of saving, as you 25 know, as we are able to improve our rebate arrangements</p> <p>Page 39</p>	<p>1 both organizations today have different care management 2 systems that support our ability to do effective, complex 3 case management, utilization management and so forth. And 4 we will be able to take the best, and utilize that across 5 all of the businesses and combined businesses over time, 6 and therefore eliminate older, perhaps less effective 7 systems.</p> <p>8 COMMISSIONER JONES: If you have additional 9 detail, we would welcome that as well.</p> <p>10 MR. SOISTMAN: I'll see what we can provide.</p> <p>11 COMMISSIONER JONES: Thank you. So with regard 12 to the ultimate 2018 savings of 1.25 billion, and ongoing, 13 can policyholders of the combined entities expect to see a 14 1.25 billion reduction collectively in their premiums?</p> <p>15 MR. SOISTMAN: It won't be that obvious to our 16 employer and consumer customers. But we have said that we 17 will look to return a significant portion of that. We 18 have not said specifically how much of that. We have to 19 plan that out accordingly. But customers will experience 20 savings in two forms. Clearly, we want to take savings, 21 and we want to be able to mitigate what otherwise would be 22 higher increases. Just because of the nature of the 23 health insurance business, where health care costs 24 continue to rise, unfortunately. And we're doing 25 everything we can to try to mitigate that and the cost</p> <p>Page 41</p>

<p>1 curve.</p> <p>2 It's a challenge that we all know we have to --</p> <p>3 we have to get after, which is why we have such strong</p> <p>4 convictions to value-based integrative care solutions.</p> <p>5 For example, the second form of savings return</p> <p>6 to consumers is new investments. New investments can come</p> <p>7 in many different forms. And I can give you a few</p> <p>8 examples, starting with, you know, gaps in care. That</p> <p>9 often times, when those gaps aren't filled, there are</p> <p>10 unintended consequences. People are admitted to the</p> <p>11 hospital who otherwise might not have a need for them to</p> <p>12 be admitted. I would point to health disparities based on</p> <p>13 race and ethnicity. There are so many unmet needs that we</p> <p>14 need to go after to address opportunities to make an</p> <p>15 impact on people's lives.</p> <p>16 Again, we are focused on healthy days, giving</p> <p>17 our members more healthy days. And we'll have to come at</p> <p>18 it from many different directions to achieve that. We</p> <p>19 will have to make investments in other technology and</p> <p>20 digital tools to help our members navigate the health care</p> <p>21 system, which can be daunting and frustrating. And we are</p> <p>22 now a society that is very accustomed to carrying a</p> <p>23 digital device in our hands and finding that as a source</p> <p>24 of great information. And we need to make more use of</p> <p>25 that for our members, not only the accessing of health</p> <p>Page 42</p>	<p>1 through investments in the technology and the programs, as</p> <p>2 well as ways to mitigate the rising cost of health care.</p> <p>3 COMMISSIONER JONES: Is Aetna offering that</p> <p>4 commitment as a condition of the merger with regard to any</p> <p>5 of the federal or state regulatory approvals that you're</p> <p>6 seeking?</p> <p>7 MR. SOISTMAN: To my knowledge, no.</p> <p>8 COMMISSIONER JONES: So it's not an enforceable</p> <p>9 commitment then.</p> <p>10 MR. SOISTMAN: That -- to my knowledge, that</p> <p>11 would be correct. But it's -- it's on the record, and it</p> <p>12 comes from the highest officer of the company, our</p> <p>13 Chairman and CEO, and he stands by his commitment.</p> <p>14 COMMISSIONER JONES: Are there any estimates</p> <p>15 with regard to the increase in earnings to shareholders or</p> <p>16 shareholder value that will result from the merger?</p> <p>17 MR. SOISTMAN: Are there any guarantees?</p> <p>18 COMMISSIONER JONES: Are there any estimates?</p> <p>19 MR. SOISTMAN: Estimates. I believe that as</p> <p>20 part of the process, when you're looking at combining two</p> <p>21 organizations, there are analyses that are done to</p> <p>22 determine whether or not, from a financial perspective,</p> <p>23 does it make sense? Will it ultimately have the potential</p> <p>24 to create a greater shareholder value? At the end of the</p> <p>25 day, how we create shareholder value is by running our</p> <p>Page 44</p>
<p>1 care, but also how they interact with us, how we can make</p> <p>2 their experience with us more simplified.</p> <p>3 So I think we would all agree that the process</p> <p>4 today is far too complex, whether it's navigating the</p> <p>5 health care system or navigating your health plan. And we</p> <p>6 have to simplify and to simplify. We're going to have to</p> <p>7 make investments.</p> <p>8 COMMISSIONER JONES: Does the company have any</p> <p>9 estimate with regard to the portion of the 1.25 billion</p> <p>10 dollars in savings, that it will reduce premiums or reduce</p> <p>11 the rate of premium growth for policyholders?</p> <p>12 MR. SOISTMAN: We have not prepared those</p> <p>13 estimates to date.</p> <p>14 COMMISSIONER JONES: Is there any enforceable</p> <p>15 guarantee contained within the merger or any of the</p> <p>16 approvals that you're seeking or have obtained from any</p> <p>17 regulatory authority that would guarantee that some</p> <p>18 portion of the 1.25 billion dollars in savings would</p> <p>19 result in lower premiums for policyholders?</p> <p>20 MR. SOISTMAN: Well, what we have stated, at</p> <p>21 various times, our chairman and CEO testified before</p> <p>22 Congress and made a commitment that we would be returning</p> <p>23 a significant part of the savings to our consumers. But</p> <p>24 we have not quantified that to a precise number. And</p> <p>25 again, we would do that in multiple forms. It would be</p> <p>Page 43</p>	<p>1 business effectively. And that's what our shareholders</p> <p>2 expect us to do. They expect us to take care of our</p> <p>3 customers. They expect us to do the right things every</p> <p>4 day. And what -- when we do those, our business will</p> <p>5 prosper, and our shareholders will be rewarded.</p> <p>6 COMMISSIONER JONES: What has Aetna told its</p> <p>7 shareholders or investors' board the expected increase in</p> <p>8 earnings per share or in share value will result from the</p> <p>9 merger?</p> <p>10 MR. SOISTMAN: I don't have specific information</p> <p>11 available on that question. I know there's been general</p> <p>12 discussions to -- again, we have to realize the 37 billion</p> <p>13 value that you referenced in your opening remarks. You</p> <p>14 have to be able to tell your board what will be achieved</p> <p>15 with that 37 billion dollar investment. So obviously</p> <p>16 there's been analysis. But I'm not prepared to answer</p> <p>17 that question today.</p> <p>18 COMMISSIONER JONES: Will Aetna provide us with</p> <p>19 the estimates of increased earnings per share or increased</p> <p>20 share value?</p> <p>21 MR. SOISTMAN: I will certainly speak with our</p> <p>22 Chief Financial Officer and our CEO to make sure that</p> <p>23 information could be made available.</p> <p>24 COMMISSIONER JONES: Thank you. I appreciate</p> <p>25 that very much.</p> <p>Page 45</p>

<p>1 It's been estimated that the executives' 2 compensation associated with the change of control totals 3 139 million dollars. And this is a figure that represents 4 change of control payments to Humana's 13 executives. I 5 want to ask both witnesses how those costs are going to be 6 covered as a part of this merger, and what, if any 7 provisions are in the merger to make sure those costs 8 don't roll down to policyholders? 9 Doctor. 10 DR. RYU: Sure. I think the matter of executive 11 compensation is governed by employment agreements that 12 have been in place long before the deal was contemplated. 13 I know, as publicly-traded companies, we have a duty to 14 publicly disclose the terms of those agreements, and it 15 goes through a process where it's approved by our 16 shareholders, and then ratified by our compensation 17 committee on our board. As far as how the -- I think the 18 crux of your question, I think I just would defer it to 19 Mr. Soistman. 20 MR. SOISTMAN: Commissioner, I'll do my best to 21 try to give you an answer to that. To the best of my 22 knowledge, that has been taken into consideration in 23 determining the net synergies of the transaction. So we 24 have to look at all of those costs of putting a 25 transaction like this together, costs of integration and</p> <p>Page 46</p>	<p>1 provide employers with information about how their group 2 is performing and things they can do, things we can do 3 together to improve outcomes. 4 COMMISSIONER JONES: In your testimony, you both 5 spoke about your companies' respective commitments to 6 diversity. And I appreciate the companies' statements in 7 that regard. 8 With regard to Aetna health group, though, our 9 most recent supplier -- diversity supplier indicated that 10 with regard to Aetna's procurement in California, Aetna 11 spent \$141 million dollars in California, but their 12 diversity spending is only \$102,000, which is .07 percent 13 of their overall spending, and is actually less than the 14 prior year, where the diverse spend was .77 percent. 15 So I'm interested in knowing what sort of 16 commitment Aetna will make going forward with regard to 17 increasing procurement from diverse suppliers. 18 MR. SOISTMAN: As I mentioned in my testimony, 19 not only is there a strong commitment in words, but to 20 your point, it's in actions. And I would certainly like 21 to see the source of that information so I could 22 personally look into it. We do, across the nation, invest 23 in diversity, and make sure that our suppliers represent 24 the community at large. 25 In California, it's very possible, but that the</p> <p>Page 48</p>
<p>1 certainly the cost for filling the contractual obligations 2 associated with Humana's executive team. 3 COMMISSIONER JONES: Mr. Soistman, in your 4 testimony you mentioned that one of the benefits that 5 Aetna asserts will accrue from the merger is the ability 6 to offer employers new solutions to reduce costs. Can you 7 give me any specific examples of what those solutions 8 might be? 9 MR. SOISTMAN: Well, we work on that every day, 10 Commissioner. We're looking to find ways, for example, at 11 early interventions, through data and analytic tools, to 12 identify the higher risk populations among an employer 13 group. Not just the employee. And taking that 14 information and trying to avoid what might otherwise be a 15 catastrophic situation, by proactively reaching out to 16 those members, working with them to encourage them to 17 have -- whether it's routine care, or in some situations 18 it could be they are the chronic -- chronic diseases that 19 need special attention, that we can work with employers so 20 we're -- we are -- this is all about improving the 21 quality, and giving members more healthy days. And more 22 healthy days to members for an employer means a more 23 productive workforce, less absenteeism. And that's a 24 greater for good for employers and their business. 25 So we have many things that we work with to</p> <p>Page 47</p>	<p>1 reduction is attributable to the fact that our business 2 may have shrunk some in size. I think positive to that is 3 that we were recently awarded opportunities to participate 4 in the Medical program, both here in Sacramento, as well 5 as in San Diego. And I think that presents an opportunity 6 for us to intensify our investment in the diverse 7 suppliers, to help our Medical program, as well as fulfill 8 our social core responsibilities. 9 COMMISSIONER JONES: I want to acknowledge that 10 in 2012, Aetna made a COIN-qualified investment into the 11 Capitol Partners Tax Credit Fund, which is a high impact 12 COIN investment. And COIN is our California Organized 13 Investment Network program where we both track and 14 encourage insurers that are licensed to do business in 15 California to invest in low-income communities. In 16 particular, we encourage companies to make high impact 17 investments that not only provide a reasonable return to 18 the insurance company, but also provide a social benefit 19 as well. 20 And one aspect of that program is a modest tax 21 credit that we make available to insurers that invest in 22 community development financial institutions. And I do 23 want to acknowledge that there's investment in that regard 24 in 2012. I think, though, that based on the information I 25 have, I'm more than happy to share both this information</p> <p>Page 49</p>

<p>1 and the diversity information with the company, that there 2 is some continued opportunity for Aetna to grow its 3 investment in underserved communities in California. And 4 I would certainly encourage you to do so. But I do want 5 to acknowledge that 2012 -- that 2012 investment. 6 MR. SOISTMAN: Thank you, Commissioner. 7 COMMISSIONER JONES: A question for Dr. Ryu. 8 You've testified with regard to the existing market share 9 of Humana and the role that Humana plays in the California 10 market with regard to MediCare Advantage policies. Does 11 the proposed acquisition result in any changes in 12 availability of these Humana products in California? 13 DR. RYU: It is my understanding that they'll 14 not. But given its a post-merger question, I think that 15 may be better directed to Mr. Soistman. 16 MR. SOISTMAN: Commissioner, our plan thus far 17 is we will, for the first year, not affect the Medicare 18 Advantage programs at Aetna or Humana. And then we have, 19 per CMS regulations we have three years to consolidate. 20 And we'll do that very thoughtfully and carefully. And 21 my, certainly my hope is that there will be opportunities 22 to expand throughout California, and grow our presence in 23 this state. 24 As I mentioned earlier in my testimony, our 25 share -- combined share is well below two percent. So we</p> <p>Page 50</p>	<p>1 entity, though? 2 MR. SOISTMAN: The merged -- 3 COMMISSIONER JONES: Plans for the merged entity 4 to change products, other than what the two companies that 5 are merging are offering. 6 MR. SOISTMAN: Well, the first -- for the first 7 year, we wouldn't make any changes to whatever the 8 products are in place as of 11/17. Post -- post-merger, 9 for 1/18/18, that would have to be determined based on 10 changes to CMS's reimbursement, or any other changes that 11 might come about with Medicare Advantage. 12 Our primary objective is to demonstrate value 13 propositions from traditional Medicare fee-for-service so 14 we can compete with Medicare fee-for-service. That's 15 where two-thirds of all Americans receive their health 16 benefits today. And that's the opportunity for us to 17 grow, is to demonstrate that we can provide them more 18 value. And we do that, by making sure that -- whether we 19 can preserve our premium markets or minimize any premium 20 changes or minimize the amount of benefit change that we 21 have to make in order to negate a price increase or 22 entertain a zero-value premium. We're always very 23 sensitive about what our beneficiaries enjoy, our 24 stability and predictability, and they're sort of our 25 guiding principles with respect to how we change products,</p> <p>Page 52</p>
<p>1 feel there's lots of outside opportunity to demonstrate 2 the value that Aetna can bring to the Medicare Advantage, 3 through Medicare Advantage to the Medicare eligible 4 population. 5 COMMISSIONER JONES: What about the products 6 themselves, though? Is there any plan to change the 7 nature of the Medicare Advantage products that are offered 8 by either company, post-merger? And when would that 9 change occur if that's going to occur? 10 MR. SOISTMAN: The way the cycle works, and 11 again, we are competitors right now, so I may be limited 12 as to how much I can provide you, because -- 13 COMMISSIONER JONES: Would you speak for Aetna 14 then or -- 15 MR. SOISTMAN: Aetna and Humana are currently 16 competing with one another, and continue to so until we 17 have final regulatory approval. So we're right in the 18 midst of making our 2017 Medicare bids that we'll file 19 with CMS. So I really can't go into much detail in terms 20 of what changes we might be considering. 21 And likewise, I would think Humana would not be 22 able to do the same with -- would run afoul of SCC by 23 doing -- SCC regulations by having these conversations in 24 this forum. 25 COMMISSIONER JONES: What about the merged</p> <p>Page 51</p>	<p>1 try to minimize disruption. 2 COMMISSIONER JONES: Aetna and Humana are in the 3 top five largest health insurers in the United States. If 4 memory serves, you may be the third and fourth largest 5 health insurers by premium volume nationally. Why hasn't 6 Aetna already made additional investments in California to 7 expand its market share? 8 MR. SOISTMAN: With respect to Medicare 9 Advantage? 10 COMMISSIONER JONES: Let's start there. 11 MR. SOISTMAN: California has been a challenging 12 market for us. We haven't given up on it, and are not 13 going to give up on it. But we continue to find it 14 challenging to grow. It all starts with having the right 15 partnerships with providers, and the competitive cost 16 structure to add that value to recurrent and perspective 17 customers. I'm hopeful that, as we continue to advance 18 our models -- again, talked about the complimentary nature 19 of this transaction -- Aetna has focused on the facility 20 side of the health -- the hospital systems' side, where 21 Humana has acquired great expertise on the physician side. 22 And by bringing these organizations together, I'm hopeful 23 that that will be the winning formula to change the 24 dynamics in a market like California, where we can bring 25 more hospital and physician partners, perspective partners</p> <p>Page 53</p>

<p>1 together. We can find that within, where they're required</p> <p>2 to take care of their patients. Our incentive is to</p> <p>3 approve the outcomes of those members' lives. And that</p> <p>4 could be equitable for a changing outcome in the state.</p> <p>5 COMMISSIONER JONES: What about the commercial</p> <p>6 market? Why hasn't Aetna invested more in the commercial</p> <p>7 market in California?</p> <p>8 MR. SOISTMAN: I think we've made investments.</p> <p>9 I think they have been calculated investments. I think,</p> <p>10 you know, the small group market has been clearly a</p> <p>11 misstep in, you know, how difficult it is for large rate</p> <p>12 increases to be dealt with by the small employer. And</p> <p>13 it's difficult for us as well. And I think that that has</p> <p>14 been a bit of a, you know, barrier for our ability to</p> <p>15 grow.</p> <p>16 I think the positive news on that front is that</p> <p>17 our last, the second quarter of '16 that your office just</p> <p>18 approved, our filing for a 4.9 percent increase, that's an</p> <p>19 annual increase. And we will be filing tomorrow for the</p> <p>20 third quarter, and that will be about 5.4 percent.</p> <p>21 Now, two quarters don't make a trend. But given</p> <p>22 where we were 2014 and '15, it's certainly positive steps</p> <p>23 in the right direction. So I'm more encouraged about</p> <p>24 turning that around and getting back on the right track to</p> <p>25 retaining our customers and restoring confidence, and</p> <p>Page 54</p>	<p>1 can misstep, self-inflicted. And you have to own those.</p> <p>2 But I don't see any barriers to entering California.</p> <p>3 COMMISSIONER JONES: And in regard to Humana,</p> <p>4 why hasn't Humana made additional investments in Medicare</p> <p>5 Advantage offers in the state of California?</p> <p>6 DR. RYU: I think if you think about our path to</p> <p>7 growth and access in any market, I think it's largely</p> <p>8 predicated on our ability to manage the care of our</p> <p>9 patients and keep them healthier. That's largely</p> <p>10 dependent, provided on good patient partners, engagement</p> <p>11 models where partners have convenient alternatives to help</p> <p>12 us manage the care. I think those things require a</p> <p>13 relationship; that we've laid the seeds in the California</p> <p>14 market. We believe we have, but I think they take time to</p> <p>15 germinate and develop. And perhaps in California, they</p> <p>16 haven't reached the level of maturity, the same level</p> <p>17 we've seen in other markets.</p> <p>18 And so I think California, for us, is probably a</p> <p>19 market that's still on the development side. And that's</p> <p>20 how we would view the Aetna market in California for us.</p> <p>21 COMMISSIONER JONES: In 2014 and 2015, Humana</p> <p>22 withdrew respectively from the individual market and the</p> <p>23 small group market. Why did Humana withdraw from those</p> <p>24 markets in California?</p> <p>25 DR. RYU: So I'm not aware of the rationale</p> <p>Page 56</p>
<p>1 maybe former customers, and winning them back.</p> <p>2 This is an important market for us. It's the</p> <p>3 largest state in the country. And we want to have the</p> <p>4 greater present here. And we will continue to make</p> <p>5 investments. We've made investments on a variety of</p> <p>6 fronts in communities we serve. We believe health care is</p> <p>7 local, and we want that Aetna name to really mean</p> <p>8 something, mean something positive. We want the people in</p> <p>9 the community to know that we care about them, and we care</p> <p>10 about communities that they live in.</p> <p>11 So we do make -- we make investments through</p> <p>12 multiple, multiple ways, not just through investing in</p> <p>13 business per se. But also through our foundation, through</p> <p>14 community and through our employees giving their time. So</p> <p>15 we'll continue to do that.</p> <p>16 MR. SOISTMAN: The challenges you've described</p> <p>17 in the California market, does that also make it difficult</p> <p>18 for new market entrants to get established in the</p> <p>19 California market?</p> <p>20 MR. SOISTMAN: I don't believe there is any</p> <p>21 barrier to entry in any market. I think it oftentimes</p> <p>22 comes down to your ability to build a competitive,</p> <p>23 cost-effective delivery system that is then reflected in</p> <p>24 your premiums. That provides value. So I don't believe</p> <p>25 there's barriers per se. I just think that sometimes you</p> <p>Page 55</p>	<p>1 behind those decisions. Probably operates on a slightly</p> <p>2 different side of our company than where our larger focus</p> <p>3 has been. But I could take that back and provide a</p> <p>4 response for you.</p> <p>5 COMMISSIONER JONES: I'd appreciate that.</p> <p>6 Those are the questions that I have at this</p> <p>7 time. I appreciate the witnesses' responses to questions.</p> <p>8 Thank you for agreeing to provide us with additional</p> <p>9 information.</p> <p>10 I think what we'll do at this time is take a</p> <p>11 five-minute break, until 10:30. And then we'll resume at</p> <p>12 10:30 with a brief presentation from the Department of</p> <p>13 Insurance. And then we'll have a chance to hear from a</p> <p>14 number of consumer groups that have previously identified</p> <p>15 their interest in testifying.</p> <p>16 That would be Health Access, Consumers Union,</p> <p>17 Greenlining, the National Diversity Coalition and the</p> <p>18 California Investment Coalition.</p> <p>19 And then after that we'll hear from medical</p> <p>20 providers. And then after that, we'll hear from any other</p> <p>21 members of the public that wish to testify. With that,</p> <p>22 we'll take a five-minute break.</p> <p>23 Gentlemen, thank you very much.</p> <p>24 MR. SOISTMAN: Thank you.</p> <p>25 DR. RYU: Thank you.</p> <p>Page 57</p>

<p>1 (Off the record.)</p> <p>2 COMMISSIONER JONES: Okay. If I could ask</p> <p>3 members of the public to take their seats, please. And</p> <p>4 we're going to resume the hearing.</p> <p>5 So I want to welcome Sheirin Ghoddoucy, of the</p> <p>6 Department of Insurance. She is an attorney from -- with</p> <p>7 the Department, and is going to make a presentation about</p> <p>8 consumer complaints the Department has received from both</p> <p>9 companies. We'll afford the company an opportunity to</p> <p>10 respond if they wish, either now, or separately.</p> <p>11 And let me turn the floor over to Sheirin.</p> <p>12 MS. GHODDOUCY: Thank you, Commissioner.</p> <p>13 Good morning. My name is Sheirin Ghoddoucy.</p> <p>14 I'm a Senior Health Policy Attorney at the Department of</p> <p>15 Insurance. I will provide a summary of consumer</p> <p>16 complaints and alleged violations concerning Aetna Life</p> <p>17 Insurance Company, Humana Insurance Company and Humana</p> <p>18 Dental Insurance Company from a period of 2013 to 2015.</p> <p>19 The figures in my testimony describe the number</p> <p>20 of alleged violations found by the Department of Insurance</p> <p>21 following an investigation of consumer complaints received</p> <p>22 by the Department. While violations identified in my</p> <p>23 testimony were determined based on the Department's review</p> <p>24 of documentation provided in the course of investigating</p> <p>25 consumer complaints, the violations are described as</p> <p>Page 58</p>	<p>1 days; requires notices denying or contesting claims to</p> <p>2 provide information regarding the right to appeal the</p> <p>3 decision to the Department of Insurance; and requires the</p> <p>4 insurer to pay a ten-percent increase on claims that are</p> <p>5 not paid within the required timeline. Alleged violations</p> <p>6 of this statute increased by over 70 percent from 2014 to</p> <p>7 2015, increasing from 118 alleged violations in 2014, to</p> <p>8 201 alleged violations in 2015. The 2015 level also</p> <p>9 constitutes a 474-percent increase from 2013, which</p> <p>10 recorded 35 such alleged violations.</p> <p>11 Insurance Code Section 101169 in part requires</p> <p>12 insurers to prominently display information regarding the</p> <p>13 right of an insured to request an independent medical</p> <p>14 review. Alleged violations of this provision of the</p> <p>15 statute increased by over 90 percent from 2014 to 2015.</p> <p>16 Insurance Code Section 790.03 in part makes the</p> <p>17 failure to acknowledge and act reasonably promptly upon</p> <p>18 communications concerning claims an unfair claims</p> <p>19 settlement practice if it is knowingly committed or</p> <p>20 performed with such frequency to indicate a general</p> <p>21 business practice. Alleged violations of this provision</p> <p>22 of the statute increased from one in 2014 to four in 2015.</p> <p>23 Insurance Code Section 10123.147 in part</p> <p>24 requires claims for emergency services to be paid,</p> <p>25 contested or denied within 30 working days; and if a claim</p> <p>Page 60</p>
<p>1 "alleged violations" because they have not undergone a</p> <p>2 formal administrative or judicial process.</p> <p>3 Lastly, the 2015 data in this summary are</p> <p>4 presently undergoing data validation and will be reported</p> <p>5 publicly on the Department's website later this summer.</p> <p>6 The publicly reported 2015 figures may differ slightly</p> <p>7 from those recorded today, due changes that may result</p> <p>8 from the validation process.</p> <p>9 First, with regard to Aetna Life Insurance</p> <p>10 Company, while the number of consumer complaints decreased</p> <p>11 in 2015, the number of the alleged violations identified</p> <p>12 in those consumer complaints increased significantly in</p> <p>13 2015. The Department recorded alleged violations of 57</p> <p>14 different provisions of law by Aetna over the three-year</p> <p>15 period. We note the following highlights from Aetna's</p> <p>16 report.</p> <p>17 The number of consumer complaints decreased over</p> <p>18 25 percent from 2014 to 2015. But in that same period,</p> <p>19 the total number of alleged violations increased by over</p> <p>20 47 percent, from 351 alleged violations in 2014, to 518</p> <p>21 alleged violations in 2015.</p> <p>22 We also noted an increase in alleged violations</p> <p>23 of the following laws concerning claims handling:</p> <p>24 Insurance Code Section 10123.13 requires health</p> <p>25 claims to be paid, contested or denied within 30 working</p> <p>Page 59</p>	<p>1 is not paid, notices must include language regarding the</p> <p>2 right to appeal the decision to the Department of</p> <p>3 Insurance. Alleged violations of this provision of the</p> <p>4 statute increased by over 30 percent from 2014 to 2015.</p> <p>5 Section 2695.5 of Title 10 of the California</p> <p>6 Code of Regulations in part imposes a duty on insurers to</p> <p>7 respond to a claim inquiry from the Department within</p> <p>8 21 days. Alleged violations of this provision of the</p> <p>9 regulation increased by over 70 percent from 2014 to 2015,</p> <p>10 increasing from 31 alleged violations in 2014 to 53</p> <p>11 alleged violations in 2015.</p> <p>12 Finally, Insurance Code Section 880 requires</p> <p>13 every insurer to conduct business in the state under the</p> <p>14 insurer's own name. Alleged violations of Section 880</p> <p>15 increased by over 108 percent from 2014 to 2015.</p> <p>16 In addition, the Department performed a market</p> <p>17 conduct of Aetna's individual and group health insurance</p> <p>18 claims closed in the period of June 2007 through</p> <p>19 March 2011. The findings indicate a persisting trend of</p> <p>20 alleged violations concerning Aetna's claims handling</p> <p>21 procedures and practices.</p> <p>22 The Dependent's market conduct exam found</p> <p>23 numerous alleged violations, including improper</p> <p>24 representation of pertinent facts and policy provisions to</p> <p>25 claimants, incorrect denials, unsatisfactory settlements,</p> <p>Page 61</p>



<p>1 failure to inform the insured of the right to independent 2 medical review, and failure to conduct fair investigation 3 of claims. The exam also found violations similar to 4 those I noted for 2013 to 2015, including but not limited 5 to failure to conduct a thorough investigation and failure 6 to provide clear reasons for denial of claims. The 7 Dependent's examination resulted in over \$215,000 8 recovered for consumers.</p> <p>9 Second, with regard to Humana Insurance Company, 10 while the number of alleged violations from 2013 to 2015 11 was low overall, we did note an increase in 2015. 12 Humana's alleged violations involved nine different 13 provisions of law in the three-year period. We note the 14 following highlights from Humana's report:</p> <p>15 The total number of alleged violations increased 16 from seven in 2014, to 12 in 2015.</p> <p>17 We noted the following alleged violations of law 18 concerning claims handling:</p> <p>19 Section 2694 of Title 10 of the California Code 20 of Regulations in part deems a consumer complaint to be 21 justified if the Department determines that a licensee's 22 acts or omissions are in contravention of its own rules, 23 policies, procedures or guidelines. Alleged violations of 24 this provision of the regulation remained the same from 25 2014 to 2015, consisting of five alleged violations in</p> <p>Page 62</p>	<p>1 laws concerning claims handling:</p> <p>2 Insurance Code Section 10123.13, as I discussed 3 earlier, requires health claims to be paid, contested or 4 denied within 30 working days; requires denial notices to 5 include information about the right to appeal the 6 decision; and requires the insurer to pay ten-percent 7 interest on claims that are not paid within the required 8 timeline. Alleged violations of this statute stayed about 9 the same, increasing slightly from five in 2014 to six in 10 2015. In contrast, there were no such alleged violations 11 in 2013.</p> <p>12 And lastly, Insurance Code Section 790.03 in 13 part requires insurers to adopt and implement standards 14 for the prompt investigation and processing of claims. 15 Alleged violation of this provision of the statute stayed 16 about the same, increasing slightly, from one in 2014, to 17 two in 2015.</p> <p>18 Thank you.</p> <p>19 COMMISSIONER JONES: Thank you. I want to 20 underscore these are consumer complaints. They're alleged 21 violations. They haven't gone through a formal 22 administrative or judicial process. Correct?</p> <p>23 MS. GHODDOUCY: Correct.</p> <p>24 COMMISSIONER JONES: And I have no expectation 25 that the company would be able to respond to this. I want</p> <p>Page 64</p>
<p>1 each year. In contrast, there were no such alleged 2 violations recorded in 2013.</p> <p>3 Section 2694 also in part requires an insurer to 4 provide a complete response within a reasonable timeframe 5 as provided under applicable law, or in the absence of 6 applicable law, within 15 days. Alleged violations of 7 this provision of the regulation remained the same from 8 2014 to 2015, consisting of two alleged violations in each 9 year. In contrast, there were no such alleged violations 10 recorded in 2013.</p> <p>11 Finally, with regard to Humana Dental Insurance 12 Company, while the number of consumer complaints decreased 13 from 2013 to 2015, the number of alleged violations 14 identified in those consumer complaints increased over 15 that period. Humana Dental's alleged violations involved 16 13 different provisions of law in the three-year period. 17 We note the following highlights from Humana's Dental 18 report:</p> <p>19 The number of consumer complaints decreased by 20 33 percent from 2014 to 2015. But the total number of 21 alleged violations stayed the same in that period, with 18 22 violations in each year. Furthermore, the 2014 and 2015 23 levels marked a noticeable increase from 2013, which 24 recorded a total of six alleged violations.</p> <p>25 We noted the following alleged violations of</p> <p>Page 63</p>	<p>1 to make sure the companies have a chance, if they so 2 desire, just to respond in writing. I know that this 3 information, this report was only recently provided to the 4 companies. So in fairness, I'm not expecting you to walk 5 through all of this.</p> <p>6 But rather I want to give you a chance to take 7 whatever time you need to put something together in 8 writing and provide a reply, if that makes sense, Mr. Ryu 9 and Mr. Soistman.</p> <p>10 MR. SOISTMAN: I would like to make a statement.</p> <p>11 COMMISSIONER JONES: Sure. Please. Right up 12 here.</p> <p>13 MR. SOISTMAN: Well, first, thank you for the 14 opportunity to provide a more comprehensive response to 15 the alleged allegations. I want to convey to you that, 16 Deputy Commissioner, Commissioner, we take compliance very 17 seriously. It's our license. It's our business. We have 18 increased our resources. We've added leadership. We've 19 intensified our governance and oversight processes to 20 double-down our efforts to make sure that everything we do 21 in terms of supporting our health insurance products in 22 the state are done in accordance with regulation.</p> <p>23 And in addition, we introduced what we call 24 "Achieving Business Excellence," which is taking 25 principles and looking at our processes end-to-end, and</p> <p>Page 65</p>

<p>1 understanding why did an event occur in the first place. 2 What was the root cause? So that we can avoid a 3 recurrence. It is a process. But I think it demonstrates 4 that we have a very high commitment to improving our 5 compliance performance in the state of California. 6 COMMISSIONER JONES: Thank you very much. I 7 appreciate that. 8 Mr. Ryu, if you wish to add anything? 9 DR. RYU: I nothing further to add. But we 10 would love the opportunity to take a look at it as well. 11 COMMISSIONER JONES: I appreciate it. And I -- 12 so we'll afford both companies an opportunity to respond 13 further in writing, if they wish. And appreciate 14 Mr. Soistman's remarks as well. 15 Thank you very much for your presentation. 16 MS. GHODDOUCY: Thank you. 17 COMMISSIONER JONES: So next we're going to turn 18 to consumer groups. There are a number of groups that 19 contacted the Department in advance of the hearing to 20 identify their interest in testifying. I know there's 21 some other groups that are here that wish to testify as 22 well. And we'll have a chance to hear from them at the 23 end of the hearing. 24 What I want to do now is divide this into 25 essentially two panels, if you will. Because we've got</p> <p>Page 66</p>	<p>1 So maybe you can each identify yourselves, and 2 introduce yourselves, and we'll start with what is on my 3 right, the audience's left. We'll just move down the row. 4 Thanks. 5 MS. MENDELSON: Good afternoon. I'm Dena 6 Mendelsohn, Staff Attorney for Consumers Union, the policy 7 and advocacy arm of nonprofit Consumer Reports. 8 COMMISSIONER JONES: I'm sorry. And I should 9 have said this before. I want to ask if you can keep your 10 testimony about five minutes each. Thank you. 11 MS. MENDELSON: Thank you for the opportunity 12 to comment on the proposed merger of Aetna and Humana. As 13 in other proposed mergers, the benefit to these plans 14 hoping to merge is clear, but the benefit to consumers is 15 not. On the contrary, when health plans get larger, 16 consumers are at risk of higher premiums for lower quality 17 products. 18 Aetna leadership has claimed that this merger 19 would further Aetna's operating efficiency, allowing the 20 plan to offer more affordable products. History of 21 mergers, however, suggests otherwise, and as David Balto 22 notes in his written comments, courts that have considered 23 it have rejected efficiencies as a valid excuse for 24 anticompetitive behaviors. Plans that merge rarely pass 25 on savings. Efforts aimed at efficiencies generally do</p> <p>Page 68</p>
<p>1 six entities that expressed an interest earlier to 2 testify. And so what I'd like to do is invite Health 3 Access, Consumers Union and CALPIRG to step forward at 4 this time. And then we'll -- after they're done, we'll 5 invite Greenlining, the National Diversity Coalition and 6 California Investment Coalition to come forward. And then 7 we'll go to the medical providers who have said they want 8 to testify. Then we'll open it up to others who have 9 indicated an interest to testify. 10 I also want to note that we've received many 11 letters from many individuals and organizations. This 12 will be made a part of the record of this proceeding. If 13 you have any doubt about whether your letter was received, 14 I would encourage you to talk to Ms. Katie Fisher, who is 15 raising her hand here. And she can tell you whether we 16 have your letter or not. 17 And of course, you have until Friday, April 29th 18 to submit any additional comments that you would like to 19 make. And we are most interested in receiving those. 20 From my perspective, the more input we get, the better. 21 And I appreciate the degree of turnout at this particular 22 hearing, and the degree of interest in this matter. 23 So with that, why don't we start. I don't know 24 any particular order. 25 They all are pointing to you.</p> <p>Page 67</p>	<p>1 not achieve substantial savings, and those that do risk 2 cutting into the quality of insurance products or customer 3 service. Rather, we anticipate that the upside of the 4 predicted one-and-a-quarter billion in synergies is more 5 likely to go to increased profits than to reduced premiums 6 or improve service. 7 The evidence from other mergers is clear; when 8 insurers consolidate, there's almost always an increase in 9 premiums. In a frequently repeated example that is 10 particularly fitting today, when Aetna Prudential merged 11 in 1999, premiums rose by seven percent. While this 12 example precedes the ACA, we believe the outcome is still 13 telling and borne out by similar mergers. 14 Aetna's aggressive rate setting practices gives 15 an additional basis to the prediction that this proposed 16 merger will end in higher premiums. As the Commissioner 17 knows, Aetna has a notably poor track record when it comes 18 to rate setting in California. Among its CDI regulated 19 products, three small group products were deemed 20 unreasonable over a four-year period. Within the DMHC 21 products, four small group rate increases were deemed 22 unreasonable and unjustified within only three years, with 23 three of them occurring in 2015 alone. Aetna took 24 advantage of the fact that regulators do not have the 25 power to force plans to come to the table and work out</p> <p>Page 69</p>

<p>1 reasonable rates. They enacted all seven unreasonable 2 rate increases, affecting nearly a half-million 3 Californians, at a cost of about 40 million dollars. 4 Aetna claims that market turbulence forced it to 5 adopt these steep rate increases despite the regulators' 6 misgivings. But changes in the marketplace have affected 7 all the plans while Aetna stands out for resisting 8 transparency and failing to provide relevant information 9 to the regulators. While other plans have worked with 10 regulators before enacting rate increases, Aetna has time 11 and again demonstrated itself to be antagonistic to 12 compromise. With increased market power from a merger, 13 there is no reason to believe that the larger company 14 would improve its responsiveness of regulators or 15 sensitivity to consumer rate burdens. Therefore, Aetna's 16 extreme history of recalcitrance around rate setting 17 should be factored into the architecture of any related 18 undertaking, if this merger is approved at all. 19 Consumers Union is also concerned that greater 20 market power will erode incentives for the newly merged 21 plan to provide high quality health insurance coverage to 22 its members. Greater plan market power, which this merger 23 portends, generally does not incentivize such improvement, 24 and as you just heard a moment ago, Aetna's baseline 25 record gives us reason to pause.</p> <p>Page 70</p>	<p>1 management, grievances and appeals and utilization 2 management. Based on publicly available information, it 3 took about three years to resolve two of these three 4 deficiencies. According to Aetna, at this point, the 5 final outstanding issue, with their website's grievance 6 information, is resolved. Yet, questions remain about why 7 such an important subject for consumers took so long to 8 address. 9 If this merger is to be approved, there must be 10 enforceable obligations on Aetna to raise the bar for 11 quality and customer service, and to ensure that Humana's 12 favorable track record is not eroded. Further, consumers 13 need assurances that the newly combined plan will lift up 14 consumer interests and improve their lot, rather than 15 leaving consumers carrying the weight of this deal. To 16 that end, our written testimony includes recommendations 17 of undertakings intended to hold the newly merged plan 18 accountable and improve services for enrollees. For 19 example: 20 An agreement not to go forward with unreasonable 21 rate increases, and to provide even greater detail, 22 publicly available, to aid CDI in especially close rate 23 review for the first years after the merger. California's 24 rate review regulations are unique in that they require 25 plans to detail quality improvement and cost containment</p> <p>Page 72</p>
<p>1 The plan was subject to 66 additional 2 enforcement actions between 2010 to 2015, totaling nearly 3 three-quarter million in fines. The majority of these 4 enforcement actions related to Aetna's handling of patient 5 grievances and improper conduct related to independent 6 medical review. 7 According to a recently issued report by the 8 California Office of the Patient Advocacy, "OPA," Aetna 9 PPO policyholders rated the plan the lowest score possible 10 when asked whether they got accurate information on plan 11 costs and claims payment during 2013 and 2014, when they 12 contacted their plan. Aetna HMO policyholders gave the 13 lowest score possible to the plan for the relative ease at 14 which they could get doctor appointments, tests and 15 treatment during the 2014 plan. 16 Drilling down to specific medical care ratings, 17 according to the OPA, Aetna's PPO received only a single 18 star on three measures, and only two stars on five others. 19 Two of the single stars were in diabetes care and 20 maternity care, which together disproportionately affect 21 women and communities of color. The HMO fared worse on 22 nearly every measure than the PPO, with all medical care 23 ratings falling to two stars or fewer. 24 In a medical survey of Aetna conducted by DMHC 25 in 2012, DMHC identified three deficiencies: Quality</p> <p>Page 71</p>	<p>1 initiatives. Aetna-Humana must not be able to sidestep 2 this obligation. 3 The plan must be required to improve quality and 4 consumer satisfaction ratings as measured by NCQA, the 5 Office of the Patient Advocate, and others. 6 Adequately staffing the plan in California, both 7 on the executive and regulatory compliance side, as well 8 as for customer and IT support during the transition 9 period. 10 To conclude, health plan consolidation, from 11 this and other pending mergers, is worrisome, both for 12 marketplace stability, and access to high quality plans 13 and health care for consumers. We appreciate CDI holding 14 a public forum on this proposal, and the Commissioner's 15 openness to input. Thank you. 16 COMMISSIONER JONES: Thank you. 17 MS. MA: All right. Good morning, Commissioner 18 Jones. My name is Tam Ma. And I represent Health Access 19 California, which works to ensure all Californians have 20 access to quality and affordable health care. Our main 21 concern for this, and other mergers, is whether consumers 22 and our health system as a whole will be better off, and 23 insurers not be allowed to gain greater market share 24 without getting better themselves. 25 While Aetna's acquisitions of Humana largely</p> <p>Page 73</p>

<p>1 affects the Medicare marketplace, we have concerns about 2 how this deal will affect California's commercial market. 3 We oppose this merger, unless it includes strong 4 conditions to ensure that consumers actually benefit. 5 Your review of this merger, along with your 6 finding of recommendations should place a strong emphasis 7 on Aetna's track record of not abiding by basic consumer 8 protections. It is relevant to look at oversight and 9 enforcement actions of all California regulators, because 10 problems that present in one line of business are likely 11 to manifest themselves across company. 12 I'm going to focus my testimony on Aetna's 13 handling of grievances, where they've had a lot of 14 problems. And in the Department of Managed Health Care's 15 most recent a routine medical survey, which was conducted 16 in 2013, Aetna was found to have three major deficiencies. 17 Of these deficiencies which remained, one of them remained 18 uncorrected for nearly three years, and dealt with the 19 grievance system. 20 DMAC found Aetna's website made it hard for 21 patients to submit a grievance. And it does not provide 22 information about the California HMO agreements' process, 23 which is a critical consumer protection. 24 Aetna recently told us they've corrected this 25 deficiency. While late is better than never, we're</p> <p>Page 74</p>	<p>1 Aetna denied the consumer's appeal, and the consumer ended 2 up filing an appeal with DMHC. Here, the consumer faced 3 further delays when Aetna didn't receive a DMAC request 4 for information within five days, as is required by state 5 regulation, which added further delays to resolving this 6 particular consumer's complaint. Aetna finally got to the 7 Department after 14 days. 8 These details may seem really persnickety, but 9 the timeframes exist because consumers are not to be left 10 in the lurch, wondering what the services they're supposed 11 to receive. The care they're supposed to get should be 12 covered. Aetna was fined for the failures in this case 13 and required to complete a corrective action plan. We 14 hope these problems will be resolved and fixed so that 15 consumers don't face delays when they're trying to seek 16 care. 17 And as you noted, Consumers Union has -- we've 18 been closely watching Aetna and its activities on 19 unreasonable rate increases. And in all of these, we've 20 been actively engaged in all the insurance mergers that 21 have been reviewed by the State. And we look closely at 22 the track records of all the insurers. All these 23 companies have had problems, and they all could be doing 24 better. However, Aetna has stood out when it comes to 25 these unreasonable rate increases.</p> <p>Page 76</p>
<p>1 disappointed that it took them nearly three years to do 2 something as basic as posting information about consumer 3 rights on the website. We question whether Aetna should 4 be allowed to get bigger when it has a hard time updating 5 its website. 6 Aetna has also been the subject of numerous 7 enforcement actions. These violations stem from a poor 8 handling of patient grievances, where it has racked up 9 over 45 violations since 2011. One recent example, 10 actually, they've accrued \$100,000 of fines in the last 11 year alone from violations of patient grievances. 12 One recent example occurred just three months 13 ago, when DMHC noted its poor handling of a consumer 14 grievance. In this case a consumer was denied 15 reimbursement of \$1,800 for anesthesia for a dental 16 procedure. And Aetna denied the claim because the service 17 had not been pre-certified. The consumer filed the 18 complaint with Aetna, which provided a violation to the 19 law by not sending the consumer a written acknowledge to 20 the grievance within five days of receiving it. It also 21 took Aetna close to two and a half months to review the 22 patient appeal, when the law requires it to resolve 23 grievances within 30 days. 24 In the meantime, the patient was holding the bag 25 for \$1,800 in medical bills they should have been covered.</p> <p>Page 75</p>	<p>1 As previously noted, Aetna proceeded with seven 2 rate increases that both the Department of Managed Health 3 Care and the Department of Insurance have found to be 4 unreasonable. As a result, small businesses have had to 5 pay more than they should have for care. And insurance 6 does not work and consumers do not have healthy days when 7 they're overpaying for health care. 8 If Aetna wants this merger to happen, it needs 9 to promise not to continue to engage in price gouging. 10 You have also received comments from consumer 11 advocates and provider groups about Aetna's acquisitions 12 of Humana's effects on the national Medicare marketplace. 13 We consider this merger to result in less competition and 14 fewer options for consumers. As you noted earlier, and we 15 have referenced in our previous testimony, in the analysis 16 by Cattaneo and Stroud, it found that an Aetna-Humana 17 merger is likely to reduce competition in the Medicare 18 market in eight California counties, including Fresno, 19 Kern, Los Angeles, Orange, Riverside, San Bernardino, San 20 Diego and Ventura. As you stated earlier, Commissioner, 21 one of the most populous counties in California, and 22 60 percent of the state's population call these -- live in 23 these counties. We do want to note this merger does not 24 provide consumers new options for care in the Medicare 25 market, but rather plans for existing anticompetitive.</p> <p>Page 77</p>

<p>1 The facts of this merger, with Aetna's poor track record, 2 makes it likely that quality will continue to go down, 3 while the price will continue to go up. We don't trust 4 Aetna to pass along efficiencies and cost savings to 5 consumers and other purchasers if they repeatedly pursue 6 unreasonable rate increases.</p> <p>7 That is why we have asked regulators to approve 8 tough, enforceable conditions to ensure a benefit from 9 this merger, in the form of lower premiums, lower 10 out-of-pocket costs, higher quality care and reduced 11 health provider disparities.</p> <p>12 In closing, we specifically include in your 13 report a thorough assessment of Aetna's track record, 14 consumer protections under the rate increases, along with 15 recommendations of conditions that must be included for 16 this deal to bring any benefit to consumers.</p> <p>17 Thank you so much for holding this hearing this 18 morning, and for the opportunity for consumer advocates to 19 provide comments.</p> <p>20 COMMISSIONER JONES: Thank you.</p> <p>21 MS. RUSCH: Emily Rusch, Executive Director, 22 CALPIRG, the California Public Interest Research Group. 23 I'm happy to be here today in front of the Insurance 24 Commission. I want to say I appreciate the scrutiny 25 they've been giving this and other mergers.</p> <p>Page 78</p>	<p>1 result of those unreasonable rate increases moving 2 forward, just in 2015.</p> <p>3 So again, I don't want to repeat too many of my 4 colleagues' comments. But we agree with the 5 recommendations that one of the conditions for the merger 6 should be that the companies agree not to move forward 7 with unreasonable rate increases. We would support other 8 actions to make sure of that, that consumers get quality 9 care, and their rates are considered fair.</p> <p>10 Thank you very much.</p> <p>11 COMMISSIONER JONES: Thank you very much.</p> <p>12 I don't have any questions for you.</p> <p>13 We also have your letters as well, which I 14 greatly appreciate. And so thank you for taking the time 15 to testify. And if, as a result of the hearing, either of 16 your groups, or any of your groups have additional 17 thoughts, the record's open until the 29th. And we would 18 welcome any additional comments you might have.</p> <p>19 Thank you very much.</p> <p>20 MS. RUSCH: Okay.</p> <p>21 COMMISSIONER JONES: If I can call the next 22 panel forward, which would include Greenlining, the 23 National Diversity Coalition and California Reinvestment 24 Coalition.</p> <p>25 We may need an additional chair.</p> <p>Page 80</p>
<p>1 We are very, very concerned about the rising 2 cost of health care, and the potential impact of this and 3 other mergers to decrease competition, without making 4 improvements to consumer care.</p> <p>5 As has been mentioned by our friends, Consumers 6 Union and Health Access, one of our top concerns with this 7 proposed merger is Aetna's poor track record on 8 unreasonable rate increases, moving forward with 9 unreasonable rate increases. We supported the SB 113604 10 six years ago in hopes that the increased scrutiny and 11 transparency of rate review provided with the work of your 12 actuaries, and actuaries of DMHC, would ensure that 13 consumers knew that their rates have been reviewed and 14 that -- and that they were reasonable. We completed a 15 recent analysis of the current rate review program as it 16 is today. It's worth noting that a vast majority of rate 17 filings filed with your Department or the Department of 18 Managed Health Care were reviewed before without incident. 19 But it has been noted, again by Consumers Union and Health 20 Access, there were several times that health insurance 21 carriers moved forward with rate increases that were 22 declared unreasonable. Seven of those were by Aetna. 23 Many of them were actually just in the last year.</p> <p>24 And it's estimated by your Department that there 25 was more than 40 million for savings for consumers as a</p> <p>Page 79</p>	<p>1 So if there's no objection, if we could take the 2 testimony in that area. Greenlining. Then the National 3 Diversity Coalition. California Reinvestment Coalition.</p> <p>4 MS. BAUTISTA: These are all -- we're all 5 National Diversity Coalition.</p> <p>6 COMMISSIONER JONES: I misunderstood. Is anyone 7 here from Greenlining?</p> <p>8 MR. GALACE: Greenlining.</p> <p>9 COMMISSIONER JONES: Okay. Anyone here from the 10 California Reinvestment Coalition?</p> <p>11 Okay. So why don't we start with Greenlining. 12 And then we'll hear from the National Diversity Coalition. 13 I think in the interest of time, we'd really like to have 14 one witness from each group. So you can decide amongst 15 yourselves who that will be.</p> <p>16 Why don't we start with Greenlining?</p> <p>17 MR. GALACE: Thank you, Commissioner Jones. My 18 name's Anthony Galace, Director of Health Policy at the 19 Greenlining Institute, a statewide, multi-ethnic policy 20 organization committed to racial and economic justice. 21 Greenlining strives to uplift the needs of communities of 22 color who face some of the most challenging barriers to 23 good health and economic stability. However, significant 24 barriers to health coverage continue to plague communities 25 of color, and the proposed merger between Aetna and Humana</p> <p>Page 81</p>

<p>1 threatens to perpetuate systemic racial and health 2 inequities. Greenlining opposes this merger on the basis 3 that it lacks consideration for the needs of communities 4 of color, who comprise a majority of our state's 5 population. I urge the Department to mandate strict 6 guidelines that address the needs of communities of color, 7 who make up a majority of the state's population, and 8 promote health equity.</p> <p>9 In our statement, we offer the following three 10 points of consideration: First, in order to most 11 effectively meet the needs of their consumers, Aetna must 12 also adopt best practices to meaningfully promote 13 diversity and inclusion, while also acknowledging the dire 14 need for greater diversity at all levels, especially among 15 executive and board-level management. Currently, there is 16 a severe lack of diversity among Aetna's senior 17 decision-makers. Aetna cannot adequately meet the needs 18 of Californians unless they reflect the populations that 19 they serve.</p> <p>20 On their website, Aetna boasts of its racial and 21 ethnic equality initiative; however, we question their 22 commitment to this cause, considering only 14 percent of 23 executive positions, and 15 percent of its board of 24 directors are people of color. Additionally, only 31 25 percent of Aetna's employees are people of color as well.</p> <p>Page 82</p>	<p>1 economic development in diverse communities and generates 2 a better return on investment by increasing competition 3 and diversity in the supply chain. An inclusive 4 procurement process needs to be a central requirement of 5 this proposal.</p> <p>6 However, as the Commissioner mentioned and 7 highlighted, the Department's own data reveals that in 8 2013 to 2014, Aetna took a significant step backwards by 9 decreasing its investments from 0.77 percent of diverse 10 spending to .07 percent, resulting in an overall decrease 11 1.1 million dollars. During this same time span, Aetna 12 ceased its partnerships with African-American small 13 businesses, and also terminated its contracts with Women 14 Business Enterprises. Even more disappointing, Aetna did 15 not participate or partner with any Disabled Veteran 16 Business Enterprises, LGBT businesses or Multi-Certified 17 Business Enterprises in 2013 or 2014.</p> <p>18 In the state of California, Humana, on the other 19 hand, displayed a mixed record on supplier diversity. We 20 applaud Humana's increased investments of almost six 21 million dollars in partnerships with American-Indian 22 businesses; however, during the same time span, Humana cut 23 its partnerships with Latino businesses by about 91 24 percent, while also increasing its investments in 25 African-American businesses from zero dollars in 2013 to a</p> <p>Page 84</p>
<p>1 Simply maintaining this status quo would serve neither 2 racial equality or equity.</p> <p>3 Aetna must provide concrete assurances that they 4 will train, recruit and hire a diverse workforce that 5 reflects California. Building a diverse workforce will 6 provide good-paying, high-quality jobs for Californians, 7 and in turn, will strengthen the state's economy. If 8 Aetna elects to perpetuate the same institutional biases 9 in selecting its workforce, then consumers should expect 10 this merger to continue to reflect an out-of-touch 11 organization that does not seek to improve health outcomes 12 in California.</p> <p>13 We urge the Department to push Aetna to 14 recognize the importance of racial equity, not just in 15 terms of improving health outcomes, but also in creating a 16 diverse and inclusive leadership structure. Ultimately, 17 Aetna must display the willingness towards fulfilling its 18 own promise of ensuring fairness and equality. Anything 19 less would be cause for rejection of this merger.</p> <p>20 Secondly, Aetna must do more to drive economic 21 development, especially in underserved communities. 22 Specifically, Aetna must commit to building its supplier 23 diversity network with small, minority-owned businesses, 24 which are a key engine of economic development for 25 communities of color. Supplier diversity promotes</p> <p>Page 83</p>	<p>1 mere \$26 in 2014. Building a diverse supplier network 2 creates opportunity to marginalized groups.</p> <p>3 Aetna's divestment from diverse businesses 4 signifies an appalling disregard for the economic 5 stability of underserved populations. Moreover, Aetna's 6 partnerships with Minority Business Enterprises, MBE, in 7 California is lackluster at best.</p> <p>8 Third, and finally, Aetna must prove its 9 commitment to California by acknowledging the importance 10 of health equity as a central tenet of its operations. 11 Greenlining strongly urges the Department of Insurance to 12 require Aetna to invest significant resources towards 13 upstream, preventive health improvements in underserved 14 communities. Aetna must pledge investments towards vital 15 community health resources such as affordable housing, 16 environmental improvements, jobs and workforce 17 development, grants to community-based organizations and 18 other strategies that target the root cause of poor 19 health.</p> <p>20 Aetna must recognize its obligation to 21 holistically improving health outcomes for all 22 Californians, beyond providing access to health coverage. 23 Should this merger proceed, Aetna's expanded capacity will 24 allow for greater spending towards public health services 25 that reduce health disparities and promote health equity.</p> <p>Page 85</p>

<p>1           However, we cannot support this merger unless 2 Aetna is required to invest more in communities through 3 grant dollars and aforementioned investments. We urge the 4 Department to consider what type of future this merger 5 will leave for young people of color in California. 6           If Aetna is truly committed to serving 7 California's growing communities of color, Greenlighting 8 urges Aetna to establish robust partnerships with 9 consumers and health equity advocates across the state. 10 Further, Aetna must be engaged with minority-owned 11 businesses, diverse businesses in order to most 12 effectively assess and adjust the needs of underserved 13 communities of color throughout California. I urge the 14 Department of Insurance to strongly advocate for strong 15 diversity and inclusion requirements in order to ensure 16 fair and equitable benefits for all Californians. 17           Thank you very much. 18           COMMISSIONER JONES: Thank you. 19           I understand, actually, we also have the 20 National Asian American Coalition, as well as the National 21 Diversity Coalition. So there are two entities. So if 22 you want to divide your 10 minutes between three people, 23 that's fine. Or two people, five minutes each. It's up 24 to you. 25           MS. BAUTISTA: Okay. Great. All right,</p> <p>Page 86</p>	<p>1           Aside from that, we're going to provide 2 technical assistance, such as getting them certified so 3 Aetna can get a good record from the Department of 4 Insurance on how they're improving their supplier 5 diversity. 6           I also admire their minimum -- the minimum wage. 7 In Fresno, we have a big presence in Fresno. We have 8 helped so many homeowners from loan modification, avoid 9 foreclosure. We partner with Island Pacific Supermarket. 10 In all 18 stores, we afforded for \$16 an hour. That's 11 better than what Governor Brown is asking. So I commend 12 them for that, and encourage all insurance should make it 13 \$16 an hour for the minimum wage. 14           Aside from that, the diversity on the board of 15 directors and executives, I agree. I mean, almost all 16 corporations, they have mostly white, a white board of 17 directors and executives. But I think working with them 18 and encouraging them, working hand in hand and having a 19 good partnership, we can increase their diversity from the 20 board of directors, the executives, all the way down to 21 bottom. 22           The other thing that we're really excited about 23 is that Medical, that they got an award in San Diego and 24 Sacramento. And I wish they can get more. Because 25 Medical for the COINs that we serve, mostly immigrants,</p> <p>Page 88</p>
<p>1 Commissioner. Thank you so much. 2           So my name is Faith Bautista, CEO of the 3 National Diversity Coalition, as well as National Asian 4 American Coalition. 5           I agree with what Greenlining is recommending. 6 The National Asian American Coalition and National 7 Diversity Coalition actually is supporting this merger. 8 Health care is very complex. It's a very, very hard 9 situation for the low income, for the people of color, the 10 way the insurance is structured now. We have the worst -- 11 it's not the worst, we're below Japan, Britain, and our 12 cost is more expensive than Japan and Britain. So as a 13 community leader, community organizer, it is our job 14 responsibility to work with Aetna and Humana to correct 15 this, to lower the cost and to improve the quality. 16           We have been working with Humana and Aetna to 17 really encourage them to do the right thing. So for 18 example, supplier diversity, I agree that the supplier 19 diversity is not excellent right now. But we have to 20 teach them how to become a better corporation where they 21 can provide contract access to Aetna and Humana. Aetna, 22 right now, is touting a supplier diversity program within 23 DC. And in DC, in fact we're going to collaborate with 24 trade organizations in San Diego and Sacramento, how we 25 can get these suppliers to become vendors of Aetna.</p> <p>Page 87</p>	<p>1 they really need them in Medical and Medicare. A lot of 2 education is needed on that. And again, any time that you 3 work with a corporation in encouraging them to do the 4 right thing, the more they will do it. But when there's a 5 lot of animosity, you know, between the David and 6 Goliaths, it doesn't work that way most of the time. 7           And I have been a Greenlining member for a long 8 time. I'm general counsel's founder of Greenlining. The 9 way the culture is, we should really adopt this. Let's 10 work together. As a Commissioner, I really admire you for 11 having this hearing. You've been a champion in supplying 12 diversity. I attended a lot of hearings. So the more we 13 encourage them, working from the regulators, corporations, 14 community leaders, it will affect consumers. 15           Thank you. 16           COMMISSIONER JONES: Thank you. 17           MR. GNAIZDA: Good morning, Commissioner. I'm 18 Bob Gnaizda, General Counsel for both the National Asian 19 American Coalition and the National Diversity Coalition. 20 We have been in touch with three of the FTC commissioners 21 and met with them in Washington D.C. last month. We have 22 frequent conference calls with the Department of Justice, 23 and have met with William Bear on the health mergers. We 24 don't know what you should do. And I hate to say that. 25 But it is a very difficult situation.</p> <p>Page 89</p>

<p>1 As Faith Bautista stated, health care is higher 2 in the United States per capita than in any other nation 3 in the world. And in most cases, by twice the amount. 4 Yet the life expectancy and infant mortality rates, to use 5 metrics, are lower virtually than any other developed 6 nation. The government may not alone be able to do 7 something.</p> <p>8 You, however, are in a unique position. By your 9 recommendations, we're going to provide to you, based on 10 all the testimony today, some of our recommendations. 11 We're going to share them with the FTC and the Department 12 of Justice. Simply, this is what the National Diversity 13 Coalition, which includes our nations 5,000 AME Churches 14 and our 40,000 Hispanic Evangelical Churches, want.</p> <p>15 We want five star care. And it can be done. 16 And we want it at low Canadian rates. And we think it can 17 be done. It will not occur overnight. It will take many 18 years.</p> <p>19 As Faith as stated, the best way to do this is 20 that the new Aetna must devote, must first stop -- start 21 with creating innovative pilot programs. And I concur 22 with Greenlining. Focus should be on our states 25 23 million primarily underserved minorities, with a special 24 emphasis on the disease generation, which is at least 25 75 percent minority.</p> <p>Page 90</p>	<p>1 say. I'm Norm DeYoung from Elk Grove. And everything 2 that I wanted to say, he said very effectively. So thank 3 you very much, Mr. Commissioner.</p> <p>4 COMMISSIONER JONES: Appreciate your brevity, 5 Mr. DeYoung. Thank you. It's a treat to see you.</p> <p>6 MR. DEYOUNG: Good to see you too.</p> <p>7 COMMISSIONER JONES: Thank you very much. I 8 appreciate your testimony. If there's any additional 9 written materials you would like to provide us, please do 10 so by close of business Friday, April 29th. And thank you 11 to each and every one of you for testifying and sharing 12 with us your views and the view of your organizations. 13 Thank you very much.</p> <p>14 MS. BAUTISTA: Can I just say, Commissioner, 15 National Diversity Coalition brought 12 people here today, 16 just to show the support of the merger.</p> <p>17 COMMISSIONER JONES: Oh, great. Would they like 18 to stand up, those 12 people? And we can see who they 19 are?</p> <p>20 Excellent. Great. Thank you for coming. We 21 really appreciate it. Thank you very much for 22 participating in this important hearing.</p> <p>23 Next I'd like to invite representatives from the 24 medical provider community. We were told that they would 25 be here, from the California Medical Association. And</p> <p>Page 92</p>
<p>1 How do we pay for this? Innovative pilot 2 programs are doable. Aetna and Humana have stated they 3 will have cost savings from this merger of two billion or 4 more a year. We advocate between 10 and 20 percent be 5 devoted every year, beginning now, for innovative pilot 6 programs that affect underserved communities. Aetna 7 should be the model for our nation. And I believe they 8 can.</p> <p>9 Consumers Union, which is a highly respected 10 consumer organization, is correct in saying there are a 11 number of counties in particular where they are working. 12 But I know one that they absolutely have to be working on 13 our pilot programs. That's the poorest big city in the 14 west. Fresno. And Fresno County and the surrounding San 15 Joaquin Valley areas.</p> <p>16 The National Asian America Coalition is in a 17 particularly unique position to help them there. And they 18 should announce these pilot programs quickly. And I 19 believe they will help the Affordable Care Act achieve its 20 promise, a promise that too many of your constituents and 21 our constituents have not yet considered.</p> <p>22 So commissioner, thank you very, very much. 23 COMMISSIONER JONES: Thank you, Mr. Gnaizda. 24 And Mr. DeYoung. 25 MR. DEYOUNG: Bob has said everything I need to</p> <p>Page 91</p>	<p>1 potentially DaVita, which is an important medical provider 2 for those who are suffering from kidney disease.</p> <p>3 Or maybe DaVita's not here. We do have DaVita's 4 letter, however.</p> <p>5 So welcome. Thank you very much. We're 6 delighted to have the California Medical Association here 7 at the hearing.</p> <p>8 If you would please introduce yourself. And the 9 floor is then yours.</p> <p>10 MS. CHAPANIAN: Thank you. Good morning. My 11 name's Michelle Chapanian, Legal Counsel for the 12 California Medical Association.</p> <p>13 I want to thank you for the opportunity to 14 express our comments and concerns regarding this proposed 15 merger. The California Medical Association would like to 16 express our concerns regarding Aetna's proposed 17 acquisition of Humana.</p> <p>18 The CMA is an organization of California 19 physicians with more than 42,000 members. CMA physician 20 members practice in all specialties and modes of practice 21 throughout California. For more than 150 years, CMA has 22 promoted the science and art of medicine, the care and 23 wellbeing of patients, the protection of public health and 24 the betterment of the medical profession.</p> <p>25 CMA and its physician members are committed to</p> <p>Page 93</p>



<p>1 the protection of the physician's ability to exercise a 2 medical judgment and then provide quality, effective care 3 for their patients. CMA has long been concerned with the 4 consolidation of health plans and health insurers and 5 reduction of competition. Physicians across the country 6 have serious concerns with the recent rapid wave of 7 proposed mergers, consolidations of health plans and 8 health insurers. Physicians are concerned that the 9 proposed mergers impact patients in terms of health care 10 access, quality and affordability.</p> <p>11 Allowing Aetna to acquire Humana would lessen 12 competition in California, to the detriment of physicians 13 and their patients. The success of health care reform 14 depends as much upon regulatory implementation as it will 15 upon healthy, competitive health plan markets. In order 16 to improve health care, we must encourage competitive 17 health insurance markets that provide ample choice, high 18 quality and transparency.</p> <p>19 CMA urges the California Department of Insurance 20 to carefully review Aetna's proposed acquisition of 21 Humana. Some of our specific concerns include a reduction 22 in competition if this merger were to be proposed -- 23 approved. I'm sorry. I don't want to repeat what the 24 Commissioner and Health Care Access has already stated. 25 But we are also aware of contemporaneous studies and</p> <p>Page 94</p>	<p>1 degradation of their ability to provide care for patients 2 that they value and need.</p> <p>3 Physicians do not believe these mergers are 4 necessary to gain efficiencies such as insurers have 5 claimed in such areas as innovation, payment programs and 6 care management strategies. The survey results 7 specifically demonstrated that 38 percent of physicians 8 strongly or somewhat oppose the merger between Humana and 9 Aetna. 76 percent of physicians believe that the merger 10 would make contracting negotiations less favorable. 11 78 percent of physicians believe the merger is very or 12 somewhat likely to lead to narrow physician networks, 13 which will reduce access to patient care. 75 percent of 14 physicians believe that they will be pressured not to 15 engage in aggressive patient advocacy if the merger's 16 approved. 90 percent of physicians believe that it is 17 either very likely or somewhat likely that reimbursement 18 rates will decrease, and the result will be a reduction in 19 the quality and quantity of services physicians can 20 provide to patients.</p> <p>21 83 percent of physicians report they disagreed 22 or strongly disagreed that the mergers are necessary to 23 gain efficiencies. 84 percent of physicians believed the 24 merger, if the mergers are approved, insurers will have 25 even more influence over physician practices, and</p> <p>Page 96</p>
<p>1 reports that there would be reduction in competition in 2 eight of California's counties in the Medicare Advantage 3 market.</p> <p>4 The only thing that I have to add to that for 5 the health plans is that report was presented to the 6 financial standard board September 9th of 2015. So it's 7 pretty recent information, if that helps at all. One's 8 their website. I won't go into what's already been 9 discussed twice.</p> <p>10 Another concern that the California Medical 11 Association has with this proposed merger is the 12 physicians. Physicians in California have vast concerns 13 regarding this. The CMA, in collaboration with the 14 American Medical Association, conducted a survey of 15 California physicians, to gauge their perspective on the 16 merger and gather data on how physicians currently 17 negotiate with insurance companies. This survey was 18 administered to members of the CMA in a brief period of 19 time. The CMA received one of the highest response rates 20 for such a survey, with 999 physician practices responding 21 to the survey. The survey results demonstrate that 22 physicians overwhelmingly oppose these mergers. They 23 believe that the mergers give insurers more influence over 24 physicians' clinical and business practices, and would 25 force physicians to cut costs, resulting in a significant</p> <p>Page 95</p>	<p>1 physicians will be forced to cut costs, which will result 2 in a significant degradation to their ability to provide 3 care.</p> <p>4 Another concern that the CMA has if this merger 5 were to be approved is the impact on health care access. 6 Insurers already are creating very narrow and restricted 7 networks that force patients to go out of network in order 8 to access care. CMA's concerned that the Aetna-Humana 9 merger, if approved, would further reduce economic 10 pressure on a combined company to offer broader networks 11 as a means to compete for enrollees, and CMA is concerned 12 the merger result will lessen competitive pressure on all 13 insurers to respond to patient access needs.</p> <p>14 Indeed, the Federal Department of Justice has 15 found, in earlier merger cases where that merged company 16 enhances market power, the result is usually a reduced 17 availability of physician services.</p> <p>18 CMA also believes that patient accessed health 19 care would be greatly hindered by reduction in 20 administrative capacity and resources post merger, as the 21 combined company would seek to cut costs in consolidated 22 resources. The aftermath of past health mergers has 23 taught California physicians and their patients that 24 post-merger consolidated entities usually lack the 25 administrative capacity and resources to administer</p> <p>Page 97</p>

<p>1 quality health care access to patients. 2 California physicians first experienced this 3 with the United Pacific Care merger, where post-merger, 4 the company did not have enough dedicated resources in 5 California to refer claim authorizations or otherwise 6 facilitate timely access to care. 7 The CMA is also concerned with reduction in 8 health care quality. An Aetna-Humana merger would expect 9 to lead to reduction of health care quality. The Federal 10 Department of Justice has found health insurers, by power 11 acquired through mergers, likely will degrade the quality 12 of health care. Patients fair better when there is a 13 competitive marketplace for purchasing physician services. 14 Another concern that CMA has is the possible 15 reduction in health care affordability. A growing number 16 of studies demonstrate that health plan mergers do not 17 result in lower costs to patients, as insurers use their 18 increased market power or monopoly power to negotiate 19 lower renegotiation rates to providers. Lower 20 reimbursement rates do not translate into lower premiums 21 or lower deductibles for patients. Instead, a growing 22 body of peer-reviewed literature suggests greater 23 consolidation amongst health plans leads to price 24 increases and access disruptions. 25 We also are concerned with the possible loss of</p> <p>Page 98</p>	<p>1 MS. CHAPANIAN: We will attach that too. Both 2 the AMA survey and CMA survey will be attached. 3 COMMISSIONER JONES: Excellent. Thank you very 4 much. We appreciate it. Thank you. 5 I understand the California Reinvestment 6 Coalition representative is here. 7 Why don't you come forward. And welcome. We're 8 limiting the panel's individual testimony to five minutes 9 each. The floor is yours. 10 MR. STEIN: Great. Thank you Commissioner and 11 Deputy Commissioner. 12 My name's Kevin Stein. I am with the California 13 Reinvestment Coalition. We're a coalition of 300 14 non-profit organizations throughout California. CRC 15 builds influence, fair economy needs, the needs of 16 communities of color and low income communities by 17 enjoining that corporations invest and conduct business in 18 our communities in a just and equitable manner. 19 I want to begin by thanking you for holding this 20 hearing and giving us an opportunity to testify and for 21 honoring "Jeans of the Capitol Day." We appreciate it. 22 In their introductory remarks, the companies 23 indicated their confidence that this merger, proposed 24 merger would provide a benefit, not only to policyholders, 25 but also to communities. And I guess we're here to say</p> <p>Page 100</p>
<p>1 collaboration and innovations. One driver behind health 2 care reform and value based health care is to incentivize 3 collaboration in health care markets and to increase 4 innovation. With recent mergers, industry experts express 5 concern of insurers having too much market power, and then 6 they've no reason to collaborate with health care 7 providers. 8 California physicians have experienced this 9 effect already in some California markets, where insurers 10 refuse to negotiate with solo or small group physicians. 11 Instead, they offer them "take it or leave it" contracts. 12 We'd like to thank you for the time to express 13 our concerns regarding this merger. We will be submitting 14 written comments by Friday. 15 COMMISSIONER JONES: Thank you. And I really 16 appreciate the California Medical Association's testimony 17 and participation in the hearing and your sharing the 18 concerns and views of the physicians across the state of 19 California. So we would welcome any additional written 20 testimony that you might provide. 21 MS. CHAPANIAN: Our written comments will be 22 much more extensive. 23 COMMISSIONER JONES: Excellent. And the survey 24 as well. We would like to have that as part of the 25 record.</p> <p>Page 99</p>	<p>1 we're not convinced by that. There was also some 2 interesting discussion in response to a question of yours, 3 Commissioner, about the myriad ways in which -- and 4 opportunities for the companies to address concerning 5 racial and ethnic health disparities. 6 We feel that one important way to go about doing 7 this is for insurance companies to look at the billions of 8 dollars in profits and premiums that they accumulate in 9 California, and to invest those in affordable housing, in 10 jobs and in economic development. 11 And in fact, the Department provides, through 12 its COIN program, an easy mechanism for companies to do 13 so. And yet when we look at the data that's available in 14 this regard, we find both companies lacking. 15 In looking at investments over the last 18 years 16 or so of the CDFI tax credit program, Aetna reports zero 17 dollars. In looking at those same 18 years of the CDFI 18 tax credit investment program, Humana reports zero 19 dollars. 20 The Department also tracks high impact holdings, 21 a category of what we think of as double bottom line 22 investments. In 2012, the last year for which data is 23 available, Aetna reports zero dollars. The Department 24 tracks COIN-qualified holdings, and for 2012, Aetna 25 reported what we would view to be a meager \$275,000 in</p> <p>Page 101</p>

<p>1 COIN-qualified holdings against a whopping nearly two 2 billion in premiums in California in that year. 3 For Humana, the high impact holdings in 2012, 4 zero dollars. For Humana, Coin-qualified holdings in 5 2012, I believe it is zero dollars. 6 So we raise the question, do these companies -- 7 and perhaps this is a question the Commissioner might pose 8 to the companies -- do the companies agree that investing 9 in affordable housing and jobs and economic and community 10 development lead to positive health outcomes? And if they 11 do, would they be willing to make a substantial commitment 12 to invest these dollars in such activities? 13 And we would also question -- raise the question 14 what kind of investments are they doing currently? So the 15 Department tracks investments in certain qualifying 16 activities. But what categories of investments and with 17 what dollars are the companies investing the premiums and 18 the profits that they accumulate? 19 As a final point, we would note, again, the 20 discussions that the Department facilitate with Centene -- 21 and help me. 22 COMMISSIONER JONES: Health Net. 23 MR. STEIN: Health Net. Thank you. Which 24 resulted in an order of -- or stipulated order where the 25 companies agree to investments in jobs in health services.</p> <p>Page 102</p>	<p>1 COIN-qualified investment. The amount was small. 2 \$275,000. But it did acknowledge the investment. 3 However, that only represents .01 percent of 4 their total direct written premiums as captured in 2015, 5 which is two billion dollars. So I do believe, as I said 6 earlier, that there is substantial room for improvement 7 with regard to the company's investments in low and 8 moderate income communities in California. And our COIN 9 office will continue to engage with the company in that 10 regard. 11 But thank you very much for that testimony. 12 Let's move now to other members of the public 13 that didn't earlier tell us that they were going to 14 testify. And so we'll just -- groups of three. I'd ask 15 that we give -- how many people also wish to testify? 16 Just by show of hands. 17 Okay. One, two, three. Come on forward, lady 18 and gentlemen. I think, given that there's only three of 19 you, we could certainly devote five minutes each to your 20 testimony. As much as that. And if there are any others 21 who wish to testify, just so I'm able to plan accordingly, 22 just make sure we get everybody in, even if there's five 23 minutes each, if you suddenly become inspired in the last 24 five minutes, the opportunity to testify to those of who 25 wish, you're welcome to.</p> <p>Page 104</p>
<p>1 And we would urge a similar conversation and similar 2 questions to be raised with these companies, and would 3 look to see a commitment that is commensurate with the 4 size of these institutions. 5 And just as a final matter, I would note that we 6 will be submitting our comments by this Friday. A large 7 number of our networks are expected to endorse the 8 comments and the positions that we are taking. So we will 9 share that with you. And we do -- you know, we have 10 focused on investments as a conversation that, you know, 11 is happening, but maybe is not as large a part of the 12 discussion. But in no way do we want that to be taken as 13 anything less than our full support for the concerns 14 raised by our allies at Health Access, Consumers Union, 15 Consumer Watchdog about the impact on policyholders of 16 these companies. 17 And I should say I'm currently a policyholder. 18 Health insurance is provided by one of these companies. 19 So I'm personally invested. 20 I appreciate very much the opportunity to 21 comment. And we would look forward to the outcome. Thank 22 you. 23 COMMISSIONER JONES: Thank you very much. 24 Just want to note -- and I said this earlier -- 25 that our records indicate that Aetna did, in 2012, make a</p> <p>Page 103</p>	<p>1 I'd ask that you please identify yourself. I'm 2 not sure who wishes to go first. 3 They're all pointing to you. 4 MS. DILLON: By default. 5 COMMISSIONER JONES: Welcome. 6 MS. DILLON: Thank you for the opportunity. My 7 name is Minty Dillon. I'm the Director of Managed Care at 8 Kaweah Delta Health Care District, a not-for-profit 9 district hospital located in Visalia, California, just 10 south of Fresno. We're -- annually, our revenue is about 11 half a million dollars. We're a big, small hospital. 12 About 500 acute care beds and the sole provider in our 13 community. 14 I'll give you a little bit of background on 15 myself. I've been doing managed care contracting for over 16 20 years. Previously with Dignity, and then with Kaweah 17 Delta now 15 years, and been part of our community for the 18 15 years that I've worked at the hospital. Kaweah Delta 19 is a large provider in our community, providing a broad 20 range of services, including -- you know, I say we do it 21 from birth to death, including birth, all the way to 22 hospice. So we're a complete delivery network. 23 Our conversation with Humana began in 2014. 24 Humana entered into the -- to the county market with their 25 Medicare Advantage product in 2014, with our partner Key</p> <p>Page 105</p>

<p>1 Medical Group. Kaweah Delta came to the table summer of 2 2014 with a new agreement, risk agreement with Humana for 3 1/1/2015. And so our conversation with Humana has been 4 very collaborative.</p> <p>5 Humana has been sort of the glue that's brought 6 the physician group and the hospital group together. 7 They, the hospital and the I p an exhibit instead our 8 market for sever will years in the past the Humana looked 9 at the actuarial county market, found an ideal opportunity 10 for us to do things collaboratively. Give you a little 11 bit of demographics actuarially, we're one of the poorest 12 counties between Tulare and Kings County. We have about 13 70-plus thousand Medicare enrollees that -- we only have 14 roughly 15 percent Medicare, managed care penetration. 15 And so we're far below the other counties in California, 16 where Medicare Advantage penetration is 30, 40 percent. 17 And as you know, CMA's goal by 2018 is for us to be at 18 50 percent. So we have immense opportunity to provide 19 collaborative care in our community. And so Humana, Key 20 Medical Group and Kaweah have formed a partnership to 21 provide those services to members of our community.</p> <p>22 Earlier, it was referred to, the virtual care 23 team. So I want to talk a little bit about that, and I 24 want to share with you sort of our story of how, in 25 collaboration with Humana, we're making changes in health</p> <p>Page 106</p>	<p>1 So we have two dedicated pharmacists and two 2 dedicated pharmacy techs providing new services. And 3 again, a significant portion of the funding has been 4 provided by Humana. They put this infrastructure in 5 place.</p> <p>6 I can go on and on about sharing some consumer 7 stories with you. We've made a difference, and with 8 Humana in collaboration. But I just wanted to share that. 9 That's how health care can -- you can provide quality 10 health care and reduce the cost, is through providing 11 medical services locally.</p> <p>12 So Humana has brought forth to us, in 13 partnership, Humana's home program, all of their various 14 other expertise that they have nationwide. And Humana's 15 very engaged. It's not been one of those typical risk 16 agreements where you -- "Here you go, Hospital. You 17 figure it out." So Humana's been at the table with us. 18 We have monthly meetings where senior leadership from 19 southern California and northern California show up 20 physically, in person. We discuss how the program is 21 doing, how we can improve upon those things. They've 22 supported us, analytics and in nursing services. And so 23 they've been at the table with us, providing a significant 24 portion of the resources available to us. And we feel 25 that without Humana's involvement, we wouldn't be able to</p> <p>Page 108</p>
<p>1 care and providing high quality affordable care. So the 2 virtual care team is a team of health coaches, nurse 3 practitioners, psychiatric nurses, social workers, medical 4 doctors and pharmacists. As a pharmacy tech, I sit on 5 that committee myself as well. And we're looking at the 6 global comprehensive care that we're providing to the 7 beneficiaries.</p> <p>8 We have roughly 6,200 Medicare Advantage 9 enrollees. Of the 6,200 Humana has in California, we 10 represent roughly ten percent of that in our community. 11 And that virtual care team was the brainchild of Humana. 12 They brought forth to us not only in concept, but also 13 kind of putting money where their mouth is. So they've 14 also provided significant funding for that virtual care 15 team.</p> <p>16 Humana, Kaweah and Key, we all believe that the 17 care needs to be provided locally. We need, every single 18 day, to evaluate where patients are, trying to identify 19 opportunities to put on the patient side. Our nurses 20 visit every single patient that's discharged from the 21 hospital, at home. Our pharmacists do pharmacy consults, 22 of every single patient that's in the hospital, as well as 23 patients who are receiving multiple medications, eight or 24 more meds, because those are the reasons why patients get 25 readmitted to the hospital.</p> <p>Page 107</p>	<p>1 form the integrated delivery network that we are now 2 forming.</p> <p>3 So Key Medical Group, Kaweah Delta are forming 4 an integrated delivery network. I've been named CEO of 5 that integrated network base where we will be managing 6 these 6,200 lives under our risk sharing agreement of -- 7 global risk sharing agreement, and hope to grow that long 8 term. So Kaweah Delta Medical Group, we approve the 9 Aetna-Humana merger.</p> <p>10 COMMISSIONER JONES: Thank you very much. 11 Mr. Stone.</p> <p>12 MR. STONE: Good morning, Mr. Commissioner. I'm 13 Barry Stone, President of the California Black Chamber of 14 Commerce, headquartered in Sacramento.</p> <p>15 And Katie, if you would, please, in the first 16 paragraph, the text of my support letter, if you can make 17 the corrections from Sacramento to California Black 18 Chamber, I really would appreciate that. Thank you.</p> <p>19 California Black Chamber of Commerce represents 20 over 50,000 African American businesses throughout the 21 state. We support the merger of Humana and Aetna. We 22 view this as an opportunity to a fork in the road for 23 Aetna to be a strong potential partner in the state of 24 California and in other business organizations, such as 25 the California Black Chamber and Hispanic Chamber, and the</p> <p>Page 109</p>

<p>1 Asian Chamber. And it is our hope that Aetna will 2 recommit to serious health preventions. 3 We find that the real issue in underserved 4 minority communities is getting ahead of the game. Not 5 caring. Not pharmaceuticals. But really trying to do the 6 health prevention stuff. So such on a case, just, as we 7 would California Black Chamber foundation, where we had a 8 half day seminar on just those issues that affect the 9 African American, diabetes, high blood pressure, et 10 cetera, had speakers come in. And that would have been a 11 perfect opportunity for Aetna to be present and be 12 involved in that proceeding. 13 With that, we say that additionally we look 14 forward to the increases in procuring and contracting. 15 I'm not going to comment, you know, publicly on the 16 current participation by Aetna or their procurement and 17 supply diversity sector. I think everything can be read. 18 I would like to see a goal by leadership of 19 Aetna that they try to obtain a minority in women and 20 Disabled Veterans goal of not less than three percent over 21 the next 12 to 18 months. With that, couple that with a 22 concerted effort for philanthropy of two percent of gross 23 profits in the state of California. There's nothing more 24 discerning than to have a person or persons talked into 25 doing business in the state of California. It's the</p> <p>Page 110</p>	<p>1 what we find is not only is there a dearth of Latino 2 physicians, but these health services, part of this is 3 something that's completely, you know, almost totally out 4 of scale in terms of how small it is as compared to the 5 size of the community. 6 And just to quickly share with you, the Latino 7 Journal was approached by several other Latino 8 community-based organizations in California, and they 9 asked us to -- they asked me to come here. We are forming 10 a group called Latino Advocates. And so we hope to be 11 engaged in these proceedings, not just with today's 12 transactions, but with future transactions as well. 13 The Latino demographics, as you all know, 14 Latinos are the largest ethnic minority group in the 15 United States, with 54 million people here in California. 16 It's the largest group, not quite half, but the largest 17 ethnic group in totality, with about 15 million people. 18 And so when we took a look at health care, you know, it 19 doesn't look like that. And so we -- what it tells us is 20 that we have a tremendous challenge to try to align it. 21 So our -- clearly this hearing in California, we're 22 interested in quite a few things. One is corporate 23 governance. The makeup of the corporate board of 24 directors and the executive levels, and we think that 25 Aetna, for Mr. A hear rest present on your board of</p> <p>Page 112</p>
<p>1 largest state in the country, that generates the most 2 revenue in the country, and have that dispersed across the 3 United States, and if we were just to a place where you 4 come get resources from -- so I would look for a 5 philanthropy commitment of two percent of your gross 6 profits in the state of California. 7 With that, I say thank you. 8 COMMISSIONER JONES: Thank you, Mr. Stone. 9 Thank you for leadership. 10 Mr. Perez. 11 MR. PEREZ: All right. Thank you, Commissioner 12 Jones, for this opportunity. My name is Jose Perez, of 13 the Latino Journal. I've been doing that for 20 years, 14 focusing on public policy and government. And I'm the 15 Chair of the California Utilities Diversity Council, which 16 has been responsible for achieving upwards of 40 percent 17 supplier diversity. It's in programs here in California, 18 with some of the ten largest companies, and so we have a 19 lot of knowledge about what goes on in that aspect. 20 And then for three years I created a group 21 called the Latino Physicians of California, that is 22 administrative to non-profit groups. And we organized the 23 3,200 Latino physicians in California. And how we would 24 love to have that kind of a service that this lady was 25 outlining earlier, with the Latino community. There's --</p> <p>Page 111</p>	<p>1 directors. And then they also have doctor pause is who 2 their medical officer. And so it looks like there is some 3 representation. We don't know these individuals. But 4 their credentials look very good. 5 The procurement, you know, area is something 6 that we're very interested in. There's 815,000 Hispanic 7 business owners in California, which is the largest 8 segment of Hispanic business in America. Almost one-third 9 of all Hispanic businesses right here in California are 10 with Sacramento, 350,000 in the employment arena. 11 Clearly, if we take a look at the health occupations, not 12 only with physicians, but all the nursing and all the 13 x-ray technicians and everything else that goes on in 14 occupational areas. In philanthropy, you know, 15 interestingly, we haven't seen the companies that are here 16 today in the Latino community in California and so forth, 17 for we have a very large group down in Los Angeles, 18 telecommunication foundation, focuses on training people 19 and getting their masters degrees and PhDs and so forth. 20 M.D.s, you know. There's -- these are companies we would 21 love to see be part of that. 22 So there's a whole community effort to try to 23 improve itself. And in order for them to be, you know, to 24 have success, they need to have, you know, corporate 25 partnerships.</p> <p>Page 113</p>

<p>1 And in addition to that, we take a look at 2 Spanish language access on this case. You know, clearly, 3 Latinos, a lot of them speak Spanish, and so how well do 4 these companies speak the language, if you will? How well 5 are these contracts written? How are their customer 6 relations, customer service is being dealt with? And so 7 for those perspectives, we're very interested in them. 8 So as we take a look at the -- at the 9 Aetna-Humana merger and the opportunities that it 10 presents, clearly, you know, we just received the notice 11 yesterday about this -- about this hearing. And we 12 appreciate that. But we just need to figure out how to be 13 a little bit more time -- a little bit more engaging. But 14 what we would recommend at this point is if we could 15 request a meeting with executives that are representing 16 the companies here today, with some of our members, so 17 that we can talk about some of these aspects of what we 18 just mentioned earlier. And then we would like to see if 19 correspondence could be agreed to, and then possibly added 20 to your letters here that go to the FTC and to DOJ. And 21 we would love to follow up with you on that, if it's 22 possible. 23 And so it's -- except for that, you know, we 24 think that there's a lot of opportunity to make things 25 better. And obviously, they're providing a service that's</p> <p>Page 114</p>	<p>1 number of contracts via dollars spent on women-owned, 2 African American-owned, Latino-owned, Native 3 American-owned, veteran-owned and LGBT-owned businesses. 4 And we're also the only insurance department in the nation 5 that is surveying the companies with regard to the 6 diversity of their corporate boards. 7 And we do this because we believe that the 8 diverse suppliers and the diverse professionals in 9 California only want one thing, and that is an opportunity 10 to compete and participate, and a fair chance to do so. 11 And so we'll continue to do that. 12 I might -- my administration, and our hope is 13 that interested public and organizations like yours will 14 use that information to go as you have. And so we're very 15 delighted to work in partnership with you and others in 16 this respect. So thank you very much. And the record 17 will be open until April 29th. 18 We did send out a notice two weeks ago. We sent 19 another one out just to make sure. And we'll have the 20 record open until the 29th. So if there are other 21 individuals or groups or the new coalitions that Mr. Perez 22 referred to, which I'm delighted to hear that he's 23 forming, they wish to comment as well, we'd be happy to 24 take those comments. So thank you. Thank you very much. 25 Really appreciate it.</p> <p>Page 116</p>
<p>1 important. The questions that came up are all legitimate 2 questions. And they, you know, we should get answers to 3 all those questions. But we're specifically interested in 4 how the Latino community is part of that cog in the wheel, 5 if you will, on this particular engagement. 6 So we respectfully request a meeting with the 7 executives to try to see if we could come to terms about 8 what we can do in California. 9 COMMISSIONER JONES: Thank you, Mr. Perez. I 10 appreciate all of your testimony. 11 Any request from executives, the executives are 12 right over there. And I'm sure they'll entertain those 13 requests. I can't force them to meet with anybody. But I 14 appreciate your interest in meeting with them, and they 15 are here. 16 And thank you each of you for your testimony 17 about the merger and for your leadership in your 18 respective areas of concern and interest. I will note 19 that as Commissioner, since 2012, I've been administering 20 the only survey of insurance companies in the nation with 21 regard to the diversity of their procurement. I've made 22 that sort of mandatory and public. It's available on our 23 website. 24 We further refined it to make sure that we are 25 capturing the best possible information with regard to the</p> <p>Page 115</p>	<p>1 MR. PEREZ: Thank you. 2 COMMISSIONER JONES: So let me say one more 3 time, if there are any other members of the public that 4 wish to testify, if so, if you could come forward, we have 5 a couple minutes left. And so we would be happy to hear 6 from you. Let me just ask if folks that are conferring, 7 if they could take their conference outside so you don't 8 disturb the rest of the proceeding. That would be great. 9 I think the Aetna, Humana officials that are 10 conferring with Mr. Stone, if they could please take their 11 conference outside, and we could continue. 12 Let me see if there are any other members of the 13 public that wish to testify at this time. 14 So again, I'll reiterate, we'll keep the record 15 open until April 29th. Close of business is Friday. If 16 you wish to make comments, you can do so by submitting 17 them electronically to mergercomments@insurance.ca.gov. 18 We're happy to entertain additional comments. Appreciate 19 Aetna and Humana's participation in the hearing, their 20 willingness to answer our questions, as well as provide 21 additional documentation. 22 We appreciate all the community groups that 23 provided information and provider groups that testified. 24 I'll just close by saying, as I said at the 25 onset, it is not my intention to reach a decision at this</p> <p>Page 117</p>

<div>1 hearing. It's my intention to receive all of the comments</div> <div>2 that I can, to thoughtfully go through those, and then to</div> <div>3 make a determination, a finding as to whether or not this</div> <div>4 merger is in the interest of California consumers,</div> <div>5 California businesses and California's health place --</div> <div>6 health care marketplace.</div> <div>7 It's also my intention to share that</div> <div>8 determination and my recommendations as Insurance</div> <div>9 Commissioner of the State of California, the largest</div> <div>10 insurance market in the United States, with both national</div> <div>11 and other state regulators that have authority in this</div> <div>12 area.</div> <div>13 So with that, again, I'm thankful to everyone</div> <div>14 who took the time to attend and participate. And seeing</div> <div>15 no other members of the public rushing forward to the</div> <div>16 microphone, we will adjourn the hearing. Thank you very</div> <div>17 much.</div> <div>18 (The proceeding was concluded at 12:01 p.m.)</div> <div>19</div> <div>20</div> <div>21</div> <div>22</div> <div>23</div> <div>24</div> <div>25</div> <div>Page 118</div>	
<div>1 REPORTER'S CERTIFICATE</div> <div>2</div> <div>3</div> <div>4 I, KAREN S. CHALLE, CSR No. 8244, Certified Shorthand</div> <div>5 Reporter, certify:</div> <div>6 That the foregoing proceedings, pages 1 through 118,</div> <div>7 were taken before me at the time and place therein set</div> <div>8 forth;</div> <div>9 That the proceedings and all statements made at the</div> <div>10 time of the hearing were recorded stenographically by me</div> <div>11 and were thereafter transcribed;</div> <div>12 That the foregoing is a true and correct transcript</div> <div>13 of my shorthand notes so taken.</div> <div>14 I further certify that I am not a relative or</div> <div>15 employee of any attorney of the parties, nor financially</div> <div>16 interested in the action.</div> <div>17 I declare under penalty of perjury under the laws of</div> <div>18 California that the foregoing is true and correct.</div> <div>19 Dated this 3rd day of May, 2016.</div> <div>20</div> <div>21</div> <div>22</div> <div>23 KAREN S. CHALLE, CSR NO. 8244</div> <div>24</div> <div>25</div> <div>Page 119</div>	

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